The Economist

MAY 23RD–29TH 2009 Economist.com

Cleaning up Britain's Parliament

The world's least bad banks

Oil, Obama and greenery

A bloody end for the Tamil Tigers

The great unseen land grab

Good news from India

The meaning of the world's biggest election

The Economist

May 23rd–29th 2009

Economist.com

India's momentous election

Oil, Obama and greenery

The world's least bad banks

A bloody end for the Tamil Tigers

The great unseen land grab

Political climate change

Friday May 22nd 2009
[+] Site feedback

Home
This week's print edition
Daily news analysis
Opinion
All opinion
Leaders
Letters to the Editor
Blogs
Columns
KAL's cartoons
Correspondent's diary
Economist debates
World politics
All world politics
Politics this week
International
United States
The Americas
Asia
Middle East and Africa
Europe
Britain
Special reports
Business
All business
Business this week
Management
Business education
Finance and economics
All finance and economics
Economics focus
Economics A-Z
Markets and data
All markets and data
Daily chart
Weekly indicators
World markets
Currencies
Rankings
Big Mac index
Science and technology
All science and technology
Technology Quarterly
Technology Monitor
Books and arts
All books and arts
Style guide
People
People
Obituaries
Diversions
Audio and video
Audio and video library
Audio edition
The World In
The World in 2009
The World in 2008
The World in 2007
The World in 2006
The World in 2005
The World in 2004
Research tools
All research tools
Articles by subject
Backgrounders
Economics A-Z
Special reports
Style guide
Country briefings
All country briefings
China
India
Brazil
United States
Russia

Print edition May 23rd 2009

Good news from India
The voters of the world's biggest democracy have given their government a precious second chance: leader

The world this week

Politics this week
Business this week
KAL's cartoon

Leaders

After India's election
Good news: don't waste it

Emerging economies
Decoupling 2.0

Climate change and Congress
Weak medicine

The end of Sri Lanka's war
Tainted triumph

Land deals in Africa and Asia
Cornering foreign fields

Cleaning up Parliament
Political climate change

Letters

On MPs' expenses, Iranian dissidents, Chrysler, Nordic countries, genetic information, the Supreme Court

Briefing

India's election
Singh when you're winning

United States

America and climate change
Cap and trade, with handouts and loopholes

California's budget crisis
No gold in state

Shaun Donovan at HUD
Recovery begins at home

A terrorist plot in the Bronx
Foiled by the Feds

Prison costs and budget cuts
No more room, no more money

A mystery bat disease
Cute but contagious

Statewatch: Colorado
Scrambling out from under

Lexington
Read it and weep

The Americas

Crime and politics in Guatemala
An indictment from the grave

Brazil's supreme court
When less is more

Tax and the Cayman Islands
Grey skies in the Caribbean

Ecuador, Chevron and pollution
Justice or extortion?

Asia

The end of Sri Lanka's war
The corpse of the Tigers

Myanmar's beleaguered opposition
The isolation ward

Indonesia's presidential candidates
Sitting pretty

North Korea v South Korea
A merry dance

Taiwan's opposition

Previous print editions

May 16th 2009
May 9th 2009
May 2nd 2009
Apr 25th 2009
Apr 18th 2009

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Business

Small businesses in Europe
Humble but nimble

GM nears bankruptcy
Chapter 11 beckons

America's carmakers cull dealers
Open season

Publishing mergers in China
A new binding

Corporate raiders in Japan
Showdown

Distributing independent films
Saved by the box

Executive pay at Royal Dutch Shell
Muck, brass and spleen

Face value
The patient capitalist

Briefing

The outlook for the oil price
Bust and boom

Finance and economics

The world's best banks
A short list

Buttonwood
When bulls chase their tails

Japan's woeful GDP figures
That kitchen-sinking feeling

Credit cards in America
Knocked off balance

Monetary union in the Gulf
Disunited Arab Emirates

Is America still AAA?
Não

Economics focus
The art of Chinese massage

Science & Technology

Satellites and global health
Remote diagnosis

Animal personalities
Unnatural selection

Thaliaceans and the carbon cycle
The jelly cycle

An early primate
Ida-olatry

Eczema's link to asthma
Breathe easy

Books & Arts

The industrial revolution
Supply and demand

The secret journal of Zhao Ziyang
Chinese whispers

Iran and the bomb
How late it is, how late

Business under Franco
The world of Eduardo Barreiros

Ronald Harwood
Plays on war

Lynn Nottage

My account home

Newsletters and alerts
- Manage my newsletters
- Manage my e-mail alerts
- Manage my RSS feeds
- Manage special-offer alerts
- More »

Print subscriptions
- Subscribe to *The Economist*
- Renew my subscription
- Change my print subscription delivery, billing or e-mail address
- Pay my bill
- Activate premium online access
- Report a missing copy
- Suspend my subscription
- More »

Digital subscriptions
- Subscribe to Economist.com
- Manage my subscription
- Mobile edition
- Audio edition
- Download screensaver
- More »

Classifieds and jobs

The Economist Group
- About the Economist Group
- Economist Intelligence Unit
- Economist Conferences
- Intelligent Life
- CFO
- Roll Call
- European Voice
- EuroFinance
- Reprints and permissions

EIU online store

Economist shop

China's state broadcaster under fire
The pathetic fallacy

Banyan
May the good China preserve us

Middle East & Africa

Jihadists attack Somalia
Al-Qaeda on the march

Jacob Zuma's first South African test
Not a whiff of corruption is allowed

America grapples with Israel
What did Barack Obama truly feel?

Kuwait's mould-breaking election
It's hard to create a democracy

Europe

America, Europe and the western Balkans
Giving a shunt towards Europe

Lithuania's new president
Steel magnolia

Troubled euro-area economies
A slow thaw

Turkey's rebellious Kurds
Stone-throwers in glass houses

The Federal Republic at 60
A German anniversary

Charlemagne
Libertas or freedom?

Britain

The Commons speaker quits
Ordered out of office

Soldiers' human rights
The charge of the legal brigade

Dire days in commercial property
Still blighted

Fiscal stimulus in Jersey
Balancing ye bookes

Jon Cruddas
Thinking man's street-fighter

Crossrail v the Tube
Projects at war

Chris Woodhead on schools
Still raging

Bagehot
There won't be blood

Articles flagged with this icon are printed only in the British edition of *The Economist*

International

Buying farmland abroad
Outsourcing's third wave

Dramatises the Congo conflict

Obituary

Prabhakaran

Economic and Financial Indicators

Overview

Output, prices and jobs

The Economist commodity-price index

Broadband subscribers

Trade, exchange rates, budget balances and interest rates

Markets

Global OTC derivatives

Politics this week

May 21st 2009
From The Economist print edition

The Congress party triumphed in **India's general election**. The governing coalition increased its tally of seats over the main opposition coalition led by the Bharatiya Janata Party. Manmohan Singh will remain prime minister. The result confounded fears that India might face a period of political uncertainty. See article

AFP

Mahinda Rajapaksa, **Sri Lanka's** president, declared victory in the government's 26-year war with the rebel Tamil Tigers. The Tigers' last remnants were overwhelmed in the sliver of territory they still controlled, and their leaders, including the supremo, Velupillai Prabhakaran, were reported killed. Thousands are thought to have died in the final few days of fighting, and tens of thousands of Tamil civilians reached internment camps in desperate conditions. See article

The United Nations refugee agency reported that 1.5m people have been displaced in **Pakistan's** North-West Frontier Province by the army's campaign against the Taliban.

Aung San Suu Kyi, Myanmar's opposition leader, went on trial for allegedly breaking the terms of her house arrest by offering hospitality to an uninvited American visitor. Many foreign governments, and the regional block, the Association of South East Asian Nations, expressed concern. See article

In its latest gesture of hostility to the outside world, **North Korea** announced that it was unilaterally tearing up wage and other agreements governing the Kaesong industrial zone, a joint business project with South Korea, just inside North Korea. South Korean firms there made plans to bring their people home. See article

Tens of thousands of supporters of the opposition Democratic Progressive Party took to the streets in **Taiwan** to protest against President Ma Ying-jeou and his policy of improving relations with China. See article

Expenses claim

After a two-week scandal over parliamentary expenses in Britain, the speaker of the **House of Commons** was forced to resign, the first time this has happened in over 300 years. A new speaker will be chosen on June 22nd. The opposition parties called for an early general election. See article

Britain's prized status as a AAA sovereign borrower looked shakier as Standard & Poor's, a credit-rating agency, revised the outlook for that rating over the next two years from stable to negative on worries about the big build-up in government debt.

Italian judges explained their decision to convict a British lawyer, David Mills, saying he had lied in court to protect **Italy's** prime minister, Silvio Berlusconi. Mr Mills is appealing against his conviction. Mr Berlusconi promised to respond in Parliament to what he called the judges' "outrageous verdict". Neither man is likely to go to jail because of Italy's statute of limitations.

In **Ireland**, an inquiry found that, over six decades, child abuse had been endemic at many Catholic institutions for boys. The head of the Irish Catholic church said he was profoundly sorry.

Fond of his job

Colombia's Senate approved a law to call a referendum on changing the constitution to allow President

Álvaro Uribe to run for a third consecutive term next year. Juan Manuel Santos resigned as defence minister to launch a presidential bid but said he would not run against Mr Uribe.

AP

In **Guatemala**, tens of thousands of people attended a rally to call on the president, Álvaro Colom, to resign after the release of a video in which a lawyer forecast that Mr Colom and his associates would kill him shortly before he was murdered. The president organised a rival demonstration, and denounced the allegations and resignation calls as a right-wing plot. See article

An armed gang freed more than 50 prisoners from a jail in Zacatecas in **Mexico**, including some two dozen members of the Zetas, a powerful drug-trafficking syndicate. But police arrested Rodolfo López, who they said is an important trafficker.

Laying out their positions

Reuters

After talks in the White House, **Israel's** prime minister, Binyamin Netanyahu, said that the **Palestinians** should "govern themselves" but refused to meet Barack Obama's clear-cut demand for a Palestinian state. The Israelis took solace from the American president's assertion that Iran should have no more than a year in which to agree to a deal that would prevent it from acquiring a nuclear bomb. See article

A car bomb in a Shia neighbourhood in **Baghdad** killed at least 40 people and injured scores of others. The following day, two bomb attacks in the Iraqi capital and one in Kirkuk, a city in northern Iraq, killed at least 23 people.

In an election in **Kuwait**, four women were elected, for the first time in an open, multi-candidate poll in a Gulf monarchy. Islamists did worse than before. But the royal family will continue to find it hard to control parliament, which has been dissolved three times in three years. See article

Jihadist rebels, apparently with encouragement from al-Qaeda, gained ground in **Somalia**, where a fragile transitional government was surrounded in the capital, Mogadishu, supported only by a weak African Union peacekeeping force. The United Nations and Western governments refuse to give direct military help. See article

Nigerian security forces continued to attack militant bases in the Niger Delta in the hope of allowing oil to be processed and exported unimpeded. Human-rights groups said that many civilians had been killed in the attacks.

The threat within

Four suspected terrorists were arrested in an alleged plot to attack a synagogue and a Jewish centre in **New York** and simultaneously shoot down military aircraft. Meanwhile, plans were made to bring to trial for the first time in a civilian court in the United States a detainee from **Guantánamo Bay**, a suspect in the 1998 bombings of American embassies in Africa. See article

Voters in **California** turned out in just enough numbers to defeat five ballot measures designed to tackle the state's budget deficit and keep the government solvent for the rest of the year. Arnold Schwarzenegger, California's governor, and leaders in the state Assembly began negotiations about the now inevitable lay-offs and spending cuts. One measure passed: to limit lawmakers' pay when the budget is in deficit. See article

Business this week

May 21st 2009
From The Economist print edition

Bank of America said it had raised $13.5 billion since May 8th by issuing common shares. Together with the $7.3 billion it obtained by selling part of its stake in China Construction Bank, BofA is more than half way to reaching the $33.9 billion that the American government's stress tests found it needs to guard itself against a severe downturn.

Timothy Geithner informed Congress that those banks deemed by the **stress tests** to require extra capital had so far raised $48 billion of the $75 billion stipulated. The treasury secretary also revealed that $124 billion was still on hand in the $700 billion Troubled Asset Relief Programme, and that a public-private partnership to help banks rid themselves of toxic assets would be in place by July.

Credit-card crunch

The American Senate passed legislation, in a 95-5 vote, that promises to reform the **credit-card industry** by, among other things, banning practices such as sharp rises in interest rates. Card issuers will also be obliged to explain their terms in plain English and inform customers about the cost of using their cards. The bill is expected to become law and credit-card companies are preparing to introduce measures such as annual fees to cover potential lost income. See article

A charge related to its acquisition of Borsa Italiana caused the **London Stock Exchange** to record a net loss of £338m ($524m) for the year to March 31st. Incorporating the Italian exchange's business boosted the LSE's overall revenue; without it revenue fell by 6% as fewer companies listed. The LSE released its earnings on Clara Furse's last day in charge. The new chief executive is Xavier Rolet.

There was more evidence of growing shareholder activism at European companies when investors representing 59% of the shares in **Royal Dutch Shell** voted against its remuneration report. The rebels were angered by proposed bonuses for senior executives, even though they had not met performance targets. See article

Filling in the Blank

The chairman of **Lloyds Banking Group** said he would step down within a year, heading off a shareholder revolt. Sir Victor Blank was a leading proponent of Lloyds TSB's takeover of HBOS last year, which had the government's blessing. Investors regard the acquisition as a mistake, given the charges Lloyds has incurred on bad debt from HBOS's lending practices.

The chief executive of **WestLB** quit his job abruptly after falling out with the German bank's biggest shareholder over restructuring plans.

The saga continued in the proposed merger of **Porsche** and **Volkswagen**. The carmakers agreed to press ahead with talks just days after VW said it was suspending negotiations because of concerns about Porsche's debt. The controlling Porsche and Piëch families, which own all of Porsche's voting stock, have been rowing over the best way to combine the companies ever since Porsche fell short in its attempt to accumulate a 75% stake in VW.

It emerged that America's Treasury is ready to inject a further $7 billion into **GMAC**, with the possibility of extra funding to come. The bail-out will enable GMAC to continue financing loans for cars at General Motors and Chrysler. Meanwhile, two more bids materialised, in addition to Fiat's formal offer, for parts of GM's European divisions.

The Smart way forward

Daimler bought a near 10% stake in **Tesla Motors**, a Silicon Valley firm that makes electric cars. Tesla's vehicles use lithium-ion batteries that can be plugged in overnight to recharge. It had already agreed to provide 1,000 battery packs for an electric version of Daimler's tiny Smart car, which is undergoing trials in London.

Hewlett-Packard's quarterly earnings disappointed investors searching for signs of a revival in the technology industry. The company's net income fell to $1.7 billion as sales of personal computers dropped by 19% and sales of printers and ink by 23% compared with a year earlier.

Japan's GDP shrank by 4% in the first quarter compared with the last three months of 2008, equivalent to a fall of 15.2% on an annualised basis. As with other East Asian economies, Japan has seen demand for its exports slump. Its consumer-electronics companies recently reported a dire set of annual earnings. See article

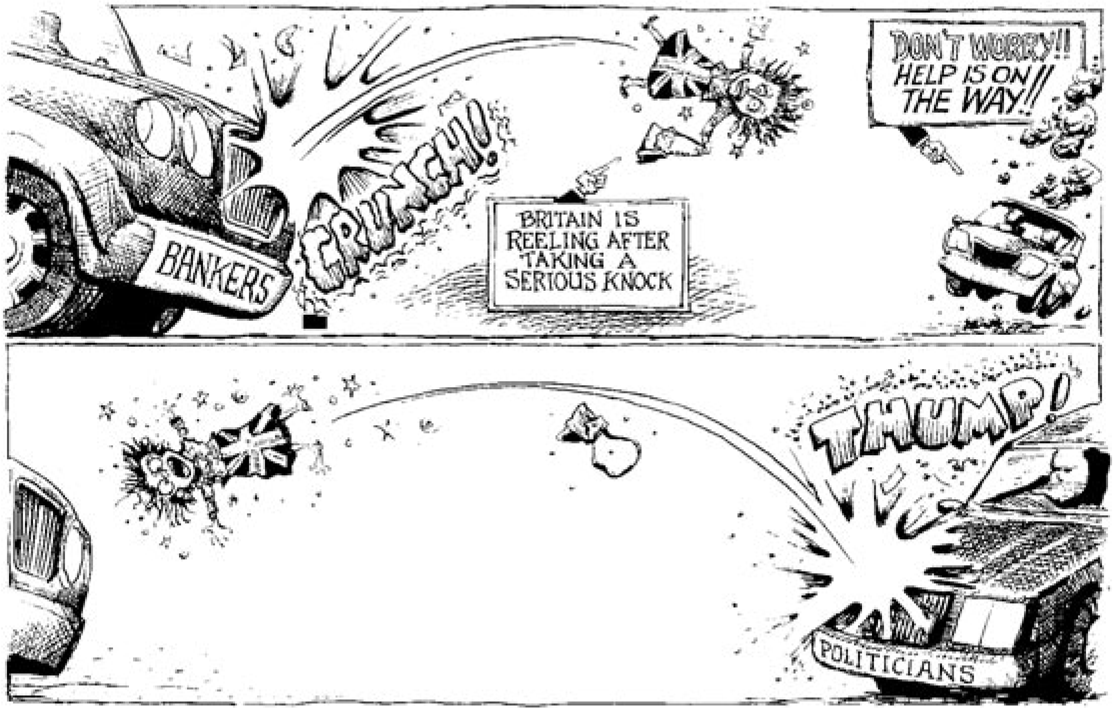
Trading on Mumbai's stock exchanges was suspended after the **Sensex index** leapt by 17% in reaction to India's election result; it has risen by close to 50% in total this year.

Britain's Court of Appeal ruled that, contrary to the argument of their maker, Procter & Gamble, **Pringles** contain enough potato to be defined as crisps (chips), and are therefore not exempt from value-added tax.

KAL's cartoon

May 21st 2009
From The Economist print edition

Illustration by KAL



After India's election

Good news: don't waste it

May 21st 2009
From The Economist print edition

The voters of the world's biggest democracy have given their government a precious second chance

AFP

INDIA is a land of bright promise. It is also extremely poor. About 27m Indians will be born this year. Unless things improve, almost 2m of them will die before the next general election. Of the children who survive, more than 40% will be physically stunted by malnutrition. Most will enroll in a school, but they cannot count on their teachers showing up. After five years of classes, less than 60% will be able to read a short story and more than 60% will still be stumped by simple arithmetic.

Some 300 parties and numerous independent candidates contested the election that has just ended (see article). They chose a bewildering variety of symbols: a lotus flower, a bow-and-arrow, a ceiling fan, a cricketer pulling the ball to the boundary. Of the 417m people who voted (a turnout of 58%), about 119m pushed the button next to an open hand, the symbol of the Congress party. That was enough to give it 206 of the 545 parliamentary seats. In a country more than twice the size of the European Union, speaking more languages, that is about as clear a mandate as any party can hope to win and—if Congress uses that mandate wisely—a wonderful chance to boost the welfare of the next generation of Indians.

Free at last...

The good news is that Congress has found it easy to form a coalition with what looks like a stable parliamentary majority. It will thus spare the country a repeat of the past five years, in which the party squandered its energies appeasing its allies in an unwieldy coalition. The election was also heartening because it revealed the limits of divisive politics. India's second party, the Bharatiya Janata Party (BJP), remains rooted in the *Hindutva* (Hindu-ness) movement, which seems to believe that India's 160m Muslims live there on sufferance. The BJP lost ground this time, showing yet again that Hindu nationalism is enough to underpin a party, but not a government.

Still, Congress must not now fall prey to complacency. The party is a big, shapeless tent, tethered to the Nehru-Gandhi dynasty, which has provided three of the country's prime ministers. The courtiers have now turned their attention to the next in line, Rahul Gandhi, the son of Sonia Gandhi, the party's leader. But, following the example of his mother, he is in no hurry to become prime minister. That is commendable. Manmohan Singh, the Oxford-educated economist who has been prime minister since 2004, has business to finish.

Liberals hope that Mr Singh's reformist instincts will enjoy freer rein now that Congress is no longer beholden to the communist parties which abandoned the government last summer and suffered horribly at the polls this spring. But liberalising measures, such as lifting the cap on foreign direct investment in insurance, win few votes in India. Only 0.7% of households own any of the shares that jumped by 17% on the first day of trading after Mr Singh's victory was declared.

Mr Singh says his aim is "inclusive" growth. He and Mrs Gandhi have shown a taste for redistributing the proceeds of growth to favoured constituencies, some of whom happen to be desperately needy. The government raised the pay of public employees, forgave the loans of small farmers and expanded its public-works scheme for the rural poor.

Congress will find it harder to repeat this trick in its second term. Although the electoral maths is now in its favour, the fiscal arithmetic is less forgiving. The government's budget deficit (including the states') could exceed 11% of GDP this year. If the economy recovers—India, alongside China, seems to be decoupled from the sluggish West (see article)—the government's borrowing will put pressure on interest rates.

To narrow the deficit, it will be tempted to short-change infrastructure spending, an investment that pays off slowly. But this would be a false economy. If India is to grow at 9% a year, it needs to add at least 25,000MW of power a year. It is also bad politics: in the states of Bihar and Orissa, voters in this election proved they will reward state administrations that show an interest in improving their lot. A government with a secure five-year term has a chance to earn votes, not just buy them.

A better way to save money would be to curb government subsidies on fuel and fertiliser. These outlays are wasteful and mostly benefit better-off people who own vehicles, or farm large plots of land. Fuel subsidies, in particular, hold the public finances hostage to the world oil price, which threatened fiscal mayhem when it passed $140 a barrel last summer. Another crisis beckons if the world economy recovers.

Reforming subsidies would be administratively easy, but politically tricky. The same, alas, applies to India's onerous labour laws. It would take only a penstroke to repeal these rules, which make a tiny fraction of the workforce practically unsackable, at the expense of everybody else. But with exports plummeting and industry shrinking, it would be a brave new government that made Indians easier to fire.

Sadly, Congress has neither the courage nor the mandate to grasp this nettle. Yet some urgent reforms would be politically popular. To reform education or combat malnutrition, for example, the government needs to recruit, motivate and monitor millions of teachers and crèche-workers. Unfortunately, that asks a lot of India's creaking bureaucratic machinery, which is notoriously prone to "leakage", a euphemism for corruption. Mr Singh's failure to repair that machinery explains a lot of his government's failure to achieve much else. It has, for example, dawdled over a bill that would supposedly enforce the right to education, because it fears the practicalities. In India, it can take up to four years to fill a teacher vacancy.

…but no more excuses

In the past five years Congress could blame such shortcomings on the vagaries of coalition politics. But it lost that alibi this week. Unencumbered by its useless former allies, it now has a clear mandate to provide the country with educated minds, well-fed bellies, irrigated fields and uninterrupted electricity, without busting the budget. Promises to do just that featured prominently in Congress's manifesto, just as they did in the election of 2004. If the hand comes up empty again, India's voters will push someone else's button next time.

Emerging economies

Decoupling 2.0

May 21st 2009
From The Economist print edition

The biggest emerging economies will recover faster than America

Bloomberg

REMEMBER the debate about decoupling? A year ago, many commentators—including this newspaper—argued that emerging economies had become more resilient to an American recession, thanks to their strong domestic markets and prudent macroeconomic policies. Naysayers claimed America's weakness would fell the emerging world. Over the past six months the global slump seemed to prove the sceptics right. Emerging economies reeled and decoupling was ridiculed.

Yet perhaps the idea was dismissed too soon. Even if America's output remains weak, there are signs that some of the larger emerging economies could see a decent rebound. China is exhibit A of this new decoupling: its economy began to accelerate again in the first four months of this year. Fixed investment is growing at its fastest pace since 2006 and consumption is holding up well. Despite debate over the accuracy of China's GDP figures (see article), most economists agree that output will grow faster than seemed plausible only a few months ago. Growth this year could be close to 8%. Such optimism has fuelled commodity prices which have, in turn, brightened the outlook for Brazil and other commodity exporters.

That said, even the best performing countries will grow more slowly than they did between 2004 and 2007. Nor will the resilience be universal: eastern Europe's indebted economies will suffer as global banks cut back, and emerging economies intertwined with America, such as Mexico, will continue to be hit hard. So will smaller, more trade-dependent countries. Decoupling 2.0 is a narrower phenomenon, confined to a few of the biggest, and least indebted, emerging economies.

It is based on two under-appreciated facts: the biggest emerging economies are less dependent on American spending than commonly believed; and they have proven more able and willing to respond to economic weakness than many feared. Economies such as China or Brazil were walloped late last year not only, or even mainly, because American demand plunged. (Over half of China's exports go to other emerging economies, and China recently overtook the United States as Brazil's biggest export market.) They were hit hard by the near-collapse of global credit markets and the dramatic destocking by shell-shocked firms. In addition, many emerging countries had been aggressively tightening monetary policy to fight inflation just before these shocks hit. The result was that domestic demand slumped even as exports fell.

Not such a bad idea after all

But the global shocks are now abating. Firms cannot slash stocks for ever. And as investors' panic recedes, so credit markets are beginning to function. This will not be enough to spur a vibrant recovery in America, where households must painfully rebuild their balance-sheets. But it removes a drag on big emerging economies—all the more so because their governments have dramatically loosened the fiscal and monetary reins. China's stimulus is the most spectacular, but Brazil has also been able to cut interest rates and boost spending.

Government activism helps explain why the creditworthy big emerging economies can recover more quickly. But it cannot create long-term resilience. China's rebound will only be sustained if the economy shifts further from state-sponsored investment to private consumption. That will require tough structural changes, from forcing state-owned firms to pay fatter dividends to a stronger social safety net. Other countries, notably India, must calibrate their government finances even more carefully (see article). The idea of decoupling lives on, but that does not mean sustained prosperity in the big emerging economies is a foregone conclusion.

Climate change and Congress

Weak medicine

May 21st 2009
From The Economist print edition

Compromise has enfeebled America's cap-and-trade bill. A carbon tax would be better

EPA

FOR those who believe that climate change is a serious problem, the decisions that America makes now are of momentous importance. In Copenhagen in December, the world will decide whether to reinvigorate or abandon its effort to avert serious climate change, and what America does between now and then will in large part determine the outcome. So the fact that Barack Obama clearly intends to turn America from being a laggard into a leader in this task is therefore encouraging.

Good intentions, however, are not enough. Moves in Washington over the past week have indicated the shape of America's policy. And although impressively far-sighted by the standards of the Bush era, it looks disappointing when measured alongside what is probably needed to insure against the real-though-hard-to-quantify threat of serious climate change.

A price that pinches

"Oil lost and coal won," was an insider's verdict on the two big developments in Washington this week (see article). The oil industry got hit by the administration's decision to tighten vehicle fuel-efficiency standards. Though hardly punishing by international measures—China has already adopted similar targets—the new rules will at least bring America within hailing distance of Europe's fuel-efficiency standards.

If America insists on using fuel-efficiency standards to cut vehicle emissions, then tough ones are better than weak ones. Yet such standards are a poor way of reducing emissions. They discourage companies from innovating and encourage them to game the system. The existence of different standards for cars and light trucks—an anomaly that continues—encouraged the rush into pickups and SUVs, overproduction of which ultimately helped sink America's car industry.

Far better to have a carbon price high enough to pinch, and then let companies and consumers decide where to cut emissions. But that, unfortunately, is unlikely to emerge from the cap-and-trade bill now in the House of Representatives, the details of which have been revealed by its promoters, Henry Waxman and Edward Markey. They have, it seems, granted some rather generous concessions to Midwestern Democrats from states dependent on coal or heavy industry.

As a result the bill is now too weak in three crucial ways. First, it envisages America cutting carbon-dioxide emissions by 17% below 2005 levels by 2020 (down from 20% in the original draft). Europe, by contrast, is aiming to cut its emissions by 20% below 1990 levels by 2020 (and by 30%, if the rest of the

world makes similarly serious efforts). Second, the purpose of a cap-and-trade system is to introduce a carbon price. But the bill sets a ceiling of $28 a tonne on the price of carbon—too low to change behaviour enough.

Third, under a cap-and-trade system, the government issues permits to pollute. The administration had wanted 100% of permits to be auctioned, but the bill would hand most of them out free (a third to electricity companies, which is nice for coal; only 2% to oil companies). When that happened in Europe, power-generation companies passed the cost of buying permits on to consumers and pocketed the value of the ones they had been given free. In order to avoid such an outcome, the bill specifies that the value of free permits must be passed on to consumers. But if consumers are protected from price increases, they will have no incentive to cut back on carbon consumption—which is one of the goals of the scheme.

The weakening of this bill illustrates one of the central problems with cap-and-trade systems. They are complex, obscure and therefore susceptible to horse-trading. A chunk of allowances can be handed out to one lobby, a sliver to another, and soon the system's effectiveness has been sliced away. The corresponding attraction of a carbon tax, which this newspaper has always supported, is its simplicity. The government sets the rate. Everybody can see what it is. Voters get transparency. Businesses get certainty. And the government gets a large chunk of revenue—not to be sniffed at in these difficult times.

This is an important moment. Thanks to much effort on the part of many well-intentioned people, America is prepared to legislate to control carbon. The country needs to seize this opportunity and introduce a simple carbon tax. Sceptics will howl about the initial cost, but it will be transparent and far, far cheaper than the impact of serious climate change.

Economist.com OPINION LEADERS

The end of Sri Lanka's war

Tainted triumph

May 21st 2009
From The Economist print edition

A bloody victory won, Sri Lanka's government urgently needs to make peace with the Tamil minority

AFP

FOR Sri Lanka's government and many of its citizens, reactions in the West to the final phase of its 26-year war with the Tamil Tigers have reeked of sanctimonious hypocrisy. The world knows the Tigers to be vicious terrorists. To stave off defeat, they held tens of thousands of civilians as human shields in their shrinking corner of northern Sri Lanka. This was typical of their callous disregard even for those whose rights they claimed to champion. Their crushing and the death of their vile chieftain, Velupillai Prabhakaran (see article), are cause for celebration. And in welcoming the end, surely it is unfair to wring hands at the inevitably bloody means. After all, the West is cheering on Pakistan's army as it takes on the Taliban, uprooting people in their hundreds of thousands.

The alleged double standards of those criticising the Sri Lankan government, however, do not begin to answer their three chief complaints. These are, firstly, that the prosecution of the war, especially in its last weeks, has been unnecessarily brutal and careless of civilian life, perhaps even breaking international humanitarian law. Second, the government has still to show that it is ready to do all it can to ease the suffering of those who have survived the Tigers' last stand. Third, it has given Sri Lankan Tamils no more than vague assurances that it will tackle the grievances that have stoked the conflict.

If military victory is to bring lasting peace, the government needs to move fast on all three points. The signs, sadly, are not good. On the first, the conduct of the war, the government has consistently described its offensive as a "humanitarian operation", to free the Tigers' hostages; it maintains that civilian casualties have all been caused by Tiger shooting and suicide-bombing. If those boasts are true, then it should welcome a thorough inquiry into war crimes. But its policy has been to avoid all scrutiny. The United Nations estimates that some 8,000 civilians have died this year. In private, some of its officials guess the true number may be at least twice that. The truth may never be known (see article). The government has kept journalists away from the battlefield. It has questioned the patriotism of any critics. It has even locked up three of the doctors who revealed some of the casualty figures.

Magnanimity would bring rewards

More urgent than confronting the horrors just past is the need to avert a secondary disaster. Long shelled, shot at and deprived of shelter, food and medicine, the half-starved wretches who have survived the recent battles are exceptionally vulnerable. The government's concern that Tiger fighters had hidden themselves among the refugees should be less acute after its comprehensive victory. More than a

quarter of a million displaced people need immediate help. The restrictions on foreign access to the camps housing them must be lifted at once. The government's promise, to have four-fifths of them back home by the end of the year, requires a massive programme of mine-clearing and reconstruction. But it might offer the chance to win Tamil loyalties.

Of 3m Tamils in Sri Lanka and a further 1m in the diaspora, very few have faith in the government. A history of abuses by the security forces, and the government's long refusal to offer genuine political concessions to Tamil demands for autonomy, drove many into the clutches of the Tigers. They, in turn, were ruthless in killing and marginalising more moderate Tamils.

Sri Lanka's president, Mahinda Rajapaksa, made his victory speech both in Sinhala, the tongue of the majority, and some Tamil. He noted military success brought no "final solution" and boasted that the Tigers' defeat was "an even greater victory for the Tamil people". That is not how it looks to those in the camps, nor to Tamils elsewhere in Sri Lanka as their countrymen celebrate the triumph. Nor is it how it appears to angry exiles whose money—some freely given as well as much extorted—has sustained the Tigers' campaign. "We are all Tigers now," claimed one British-born, well-educated Tamil protester outside the Houses of Parliament in London this week. That is why the third thing Mr Rajapaksa's government needs to do is to attack the basis of the Tigers' residual support by offering Tamils a genuine devolution of political power.

The government seems to have calculated that, if it won the war quickly enough, using whatever means it took, it could deflect calls from America and Europe for sanctions. Hiding behind the diplomatic support of Russia and, especially, China, it has been able to do that. It seems unaware of quite how badly it has in the process besmirched Sri Lanka's reputation as a freedom-loving democracy. If it fails to act quickly to save lives and build a lasting peace, the world will have to start treating it as the elected dictatorship it is beginning to resemble.

Land deals in Africa and Asia

Cornering foreign fields

May 21st 2009
From The Economist print edition

The Chinese and Arabs are buying poor countries' farms on a colossal scale. Be wary of the results

Illustration by Claudio Munoz

OVER the past two years, as much as 20m hectares of farmland—an area as big as France's sprawling farmland and worth $20 billion-30 billion—has been quietly handed over to capital-exporting countries such as Saudi Arabia, Kuwait and China. They buy or lease millions of acres, grow staple crops or biofuels on it, and ship them home. The countries doing the selling are some of the world's poorest and least stable ones: Sudan, Ethiopia, Congo, Pakistan. Usually, when foreigners show up in these places, it is with aid, pity and lectures (or, in one instance, arrest warrants for war crimes). It must make a nice change to find their farms, so often sources of failure and famine, objects of commercial interest instead.

Yet while governments celebrate these investments, the rest of the world might reasonably ask why, if the deals are so good, one of the biggest of them helped cause the overthrow of the government that signed it—the one in Madagascar. Will this new scramble for Africa and Asia really reduce malnutrition, as its supporters say? Or are critics right that these are "land grabs", "neocolonialist" rip-offs, different from 19th-century colonialism only because they involve different land-grabbers and enrich different local elites (see article)?

Protectionism or efficiency?

It would be graceless to write off in advance foreign investment in some of the most miserable places on earth. The potential benefits of new seeds, drip-feed irrigation and farm credit are vast. Most other things seem to have failed African agriculture—domestic investment, foreign aid, international loans—so it is worth trying something new. Bear in mind, too, that worldwide economic efficiency will rise if (as is happening) Saudi Arabia abandons mind-bogglingly expensive wheat farms in the desert and buys up land in east Africa.

Yet these advantages cannot quell a nagging unease. For a start, most deals are shrouded in mystery—rarely a good sign, especially in countries riddled with corruption. One politician in Cambodia complains that a contract to lease thousands of acres of rice contains fewer details than you would find in a house-rental agreement. Secrecy makes it impossible to know whether farms are really getting more efficient or whether the deals are done mainly to line politicians' pockets.

Next, most of these deals are government-to-government. This raises awkward questions. Foreign investment helps countries not only by applying new technology but also by reorganising the way people

work and by keeping an eye on costs. Few governments do this well, corrupt ones least of all. One of the biggest problems of large-scale commercial farming in poor countries is that well-connected farmers find it more profitable to seek special favours than to farm. These deals may exacerbate that problem. Worse, the impetus for many of them has not been profit-seeking by those who want to turn around failing farms. Rather, it has been alarm at rising food prices and export bans. Protectionism, not efficiency, has been the driving force. It would be better to liberalise food markets and boost trade than encourage further land grabs.

Third, there are serious doubts about whether countries acquiring land are paying the true cost of it. Host governments usually claim the farmland they offer is vacant, state-owned property. That is often untrue. It may well support smallholders who have farmed it for generations. They have no title, only customary rights. Deals that push them off their land or override customary rights cannot be justified. International bodies, such as the African Union, are drawing up codes of conduct to limit such abuses. They are sorely needed.

Even then, land deals will never help the poor as much as freer trade and stronger property rights. But if the deals eventually raised yields, spread technology and created jobs, that would at least be some cause for celebration. At the moment too many seem designed to benefit local elites more than local farmers; they use foreign labour and export most of their production, harming local food markets. Until they show otherwise, a dose of scepticism should be mixed with the premature hopes the land deals have engendered.

Cleaning up Parliament

Political climate change

May 21st 2009
From The Economist print edition

Britain's legislature needs a vigorous cleansing; but now is not the time to redesign government

Jupiter Images

OVER the past century, the British have lost a lot—their empire, their military might, their economic leadership and even their sense of superiority. But they still reckoned that they had one of the best parliaments in the world. The constitution might be a mess, the executive insufficiently checked, but compared with America's Congress and most of the European systems, Westminster seemed relatively clean.

That is why the revelations of the past two weeks—that MPs have been picking taxpayers' pockets, pushing the rules to breaking point on second-home mortgage relief, massage chairs, moat-clearing and the like—have been such a shock. The public is apoplectic. The speaker of the House of Commons was obliged to resign on May 19th, the first time since 1695 that a holder of that office had been ejected (see article).

Such profound shifts in the political climate are rare. What to do about this one? A vast array of solutions are being rushed forward. Broadly, they fit into three categories. There is an electoral solution: the opposition Tories want a general election to let the people sweep the cursed crooks from office (and themselves into it). There is a range of constitutional reforms, from fewer MPs to proportional representation. And there is institutional spring cleaning—changing the allowances system, improving MPs' usefulness and getting rid of the most grievous offenders. This newspaper is not afraid of calling for elections or constitutional change, but in this particular situation the emphasis, especially now, should be on the last set of proposals. That is because this crisis—no matter how shameful the offences involved—is institutional, not constitutional.

Going, going, Gordon…

Begin with the idea of an election. The prospect of a fresh start is certainly alluring. These are unsettled times, in Britain as elsewhere. Having been forced, teeth gritted, to support failed bankers in lavish retirement, taxpayers are rightly outraged by the discovery that MPs too have their noses in the trough. Although Britons usually take a dyspeptic view of their representatives, there is a different, bloodier mood now. Giving the people a say would in theory cleanse the system.

There may indeed soon be good reasons for forcing an election—especially if it becomes obvious, as it well might, that Gordon Brown's spindly government has lost the authority to govern the country. But the

expenses crisis, if anything, weakens the argument for a contest now. If an election were called next week, Britain might well end up with a Parliament for the next five years that is defined entirely by its views on claiming for bath plugs, rather than on how to get the country out of the worst recession in 70 years.

The same yes-but-not-now logic applies to the calls for constitutional reform. Some elements in this crisis can indeed be traced back eventually to defects in Britain's system, notably the drift of power away from Parliament to the executive. But the heart of the matter was much smaller: a shoddy way of dealing with expenses. You could re-engineer great swathes of Westminster—bring in an elected House of Lords, introduce a Bill of Rights, design open primaries for MPs, scrap the first-past-the-post electoral system—and it would not make a shred of difference if the people elected were left in charge of claiming their own expenses amid a "course-you-can-chum" culture. A pile of swimming-pool-cleaning receipts is not a good starting place for constitutional reform.

So focus on making a misused organisation work. Finding a new speaker is the first task. Michael Martin, the incumbent until June 21st, was inept, but it was his refusal to tackle—or even to air publicly—the laxness of the allowances system that did for him. His successor cannot be found among what Lord Rosebery, a prime minister in Queen Victoria's time, called "the mediocrities of the House". He or she will need heft to lead reform and to persuade the public to place its trust in a cleaned-up Commons. It is a mark of how bad the graft is now that some otherwise good candidates have been rendered ineligible by their own incontinence on expenses.

The second task is to deal with the most egregious envelope-pushers. Erring MPs cannot escape punishment by offering grovelling apologies and repaying the unjustified expenses they were caught claiming: that would be like letting off a shoplifter who volunteered to return the dress she swiped from Harrods. A few have been punished. Once the evidence is clear, all the rule-breakers should be chucked out of the parties, all the rule-benders dispatched from the front benches.

The third job is changing the way MPs' finances are regulated. An independent commission is beavering away to come up with ideas for this. All parties have agreed to interim reforms meanwhile, clamping down on what MPs can claim for. Mr Brown's main thrust is to replace Parliament's ancient system of self-governance with an external body that would set and police MPs' allowances. He is probably right in this: self-regulation is on the run in most walks of life, and recent experience of it in Parliament is dispiriting. But transparency will make much more difference than yet another quango. The reason MPs are likely to stay on the straight and narrow is the fact that their claims will henceforward be published online.

The great accounting to come

Do these three things quickly and much of the sting will be drawn. That still leaves room to begin a broad review of the workings of Parliament and to tackle the constitutional issues.

One reason for Westminster's longer-run woes is that the job of an MP has become less appealing to capable independent minds. Ever more laws are in effect drafted in Brussels these days. A leaching of authority to the executive has left MPs too dependent for advancement on the goodwill of party higher-ups to hold the government to account. That could be corrected by giving more, not less, power to MPs—for instance by setting up permanent committees with long-serving members, more expert staff and power to compel evidence.

As for an election, one is due within a year. Better to save that great accounting for a time when voters care about something bigger than the dodgy expenses of some errant MPs.

On MPs' expenses, Iranian dissidents, Chrysler, Nordic countries, genetic information, the Supreme Court

May 21st 2009
From The Economist print edition

Putting your House in order

SIR – You argue that the expenses scandal besieging members of Parliament is not a crisis of democracy ("Moats and beams", May 16th). I wonder. Perhaps what we are witnessing is precisely a recognition that parliamentary democracy as we have known it is slipping away, and with it the utility of Parliament itself. One of an MP's main roles is to monitor and control the executive, that is the government ministers of the day. However, MPs are now career politicians and that same executive controls the progress of their careers. Attempt to exercise your responsibilities and your career suffers. One could not design less effective corporate governance.

In addition, an increasingly large chunk of legislation affecting Britain now comes from the European Union. It is not hard to see MPs as ornaments who distract voters as their democratic institutions fade away. The British government has an ever-decreasing relevance and our MPs are mere flies buzzing around the carcass of Westminster power. The electorate has noticed.

Tim Wade
Marlborough, Wiltshire

SIR – The expenses scandal is only the latest and most obvious symptom of the sickness of our system of unrepresentative government. MPs have more in common with each other than with the people they supposedly represent. Most go straight from school, university or trade unions into the breeding tanks of the political parties, then into the aquarium of Westminster. They are a privileged caste, claiming to serve others when their principal concern is to perpetuate their own power, preferences and prestige.

Our famously unwritten constitution is a shameful sham. Party oligarchs manipulate the absurd first-past-the-post electoral system, which puts governments into power with more votes cast against them than for them. They are not motivated to change the system as they are dependent upon and profit from it. Both they and the electorate become more and more cynical, and Britain comes to resemble more and more the political casino of Italy.

Robert Tyrrell
Bettona, Italy

SIR – We live in a culture that reveres anger. Seneca, a Roman philosopher, recognised how demeaning anger can be; "the most hideous and frenzied" of all emotions, a flight from reason that brings ruin to nations. This perfectly fits today's angry public. The citizenry has deserted the main political parties, absurdly seeing all MPs as corrupt and promising to retaliate by withholding votes or switching votes to fringe parties, even the obnoxious British National Party. Britain does not have the MPs it deserves, but equally it does not yet have a sufficiently judicious electorate.

David Goodman
Oxford

The following letter appears online only

SIR – You repeat the seductive self-deception that British politicians are not really corrupt. British public life is deeply corrupt, we just hide the sins behind cherished institutions, beloved traditions and beautiful architecture. You can see it in works such as David Hare's "Plenty", or Julian Mitchell's "Another Country". It would be more accurate to say that, because the British are sentimental, we like to moderate the fruits of our corruption. We like to be moderate in most things.

Brian Jenner
Bournemouth

The following letter appears online only

Iranian dissidents in Iraq

SIR – Your article on the People's Mujahedeen of Iran, also known as the Mujahedeen-e Khalq Organisation (MKO), was an accurate account of their past activities ("Where will they all go?", April 11th). I was therefore surprised to read the letter from Lord Corbett attacking *The Economist* (May 2nd).

The Iraqi government has announced on a number of occasions that it has no intention of forcing the MKO members in Camp Ashraf, north of Baghdad, to leave for Iran or to go to any other country. In fact, it is my understanding that 1,015 people out of the 3,400 people in the camp hold residence permits for different countries, many of them in the European Union. In addition, some 2,000 inhabitants have registered with the UN's High Commissioner for Refugees in the hope of being transferred to other countries ready to accept them. For several years the Iraqi government has been working closely with UNHCR in order for this to happen. We in Europe, however, are not accepting these people, despite repeated requests by the Iraqi government. Why?

Most of Camp Ashraf's inhabitants received military training under Saddam Hussein's regime and took part with his Presidential Guard and other Iraqi security forces in crushing the Iraqi people's uprising after the liberation of Kuwait in 1991. There is ample evidence that the MKO harmed the Iraqi people when the Iraqi army refused to carry out the killings that Hussein required. Many families of the victims in Iraq cannot forget this. The Iraqi constitution does not permit the presence of groups such as the MKO on its soil. You also mentioned allegations of a bizarre and disturbing cult of personality that the MKO inculcates into all its members.

It is for Iraq's democratically elected government to fulfil its obligations under national and international law, which it is doing in respect of Camp Ashraf, and not to heed the voices that would promote a group that has committed atrocities against its people.

Baroness Nicholson of Winterbourne, MEP
House of Lords
London

Claims on assets

SIR – Regarding your observation on Barack Obama and the car industry that "the American government is trashing creditors' rights", all insolvency arrangements reflect government public policy, and rightly so ("An offer you can't refuse", May 9th). It is the wide degree of divergence between such policies that has made progress towards the substantive cross-border harmonisation of insolvency law so difficult. Compare the emphasis put on preserving employment in France, for example, with the respect given to creditors' rights in Britain.

What is really objectionable is retroactive changes to insolvency regimes. Investors are entitled to expect a degree of certainty about the hierarchy of priority that formed the basis of their decision to invest and that this hierarchy should not be overridden, particularly in a manner which bypasses the scrutiny that would have come from a change to the law through legislative amendment.

There used to be, in the world of restructurings in the London market, a practice operated in a firm but gentlemanly manner by the Bank of England called the London Approach. It sounds as if the process under way for Chrysler, and widely anticipated for General Motors, could probably be dubbed the Chicago Approach.

Peter Bloxham
London

The following letter appears online only

SIR – The Obama administration's handout to Chrysler's junior creditors may be poor policy and favour favourites, but it is not a "trashing" of creditors' rights. Chrysler's senior secured creditors have a right to the economic value of their liens, which is either liquidation value or stand-alone reorganisation value. Chrysler standing alone is worth even less than Chrysler liquidated piecemeal, and even that would fetch a pittance.

As long as the holders of carmakers' debt get something more than that pittance, and they will, it is their expectations and not their rights that are being trashed. They are not the first investors to conflate the two.

Derek Alexander
New York

Euro vision winners

SIR – You pointed to a shift in our understanding of which socioeconomic template is "the best" in Europe ("A new pecking order", May 9th). The neoliberal Anglo-Saxon blueprint is in shreds, you say, and the French model, with its heavier regulation and higher taxes, is being given a second glance. However, looking at the data it is not the French but the Nordic countries that have the upper hand.

The World Economic Forum ranks the Nordics at the top for economic competitiveness; Transparency International ranks them towards the bottom on corruption; and the World Bank places them ahead of other countries when measuring the "knowledge factor". On almost all measures of social trust and social capital, the Nordic countries come out ahead. Moreover, they have outperformed most of their neoliberal Anglo-Saxon counterparts as well as France and Germany in economic growth during the past 15 years.

Simply put, and contrary to what most economists take for granted, the Nordic countries have shown that social solidarity, high levels of taxation and economic competitiveness are not mutually exclusive. Public investment in human capital creates a sense of equality in opportunity among large segments of the population, which in turn has a positive effect on social capital. Together these factors increase economic prosperity.

Bo Rothstein
Professor of political science
University of Gothenburg
Gothenburg, Sweden

Personal information

SIR – It is not surprising that Google and 23andMe, a genomics firm, want the power of information that comes from new technologies in health care to be wrested from the medical profession (Special report on health care and technology, April 18th). Data mining leads to personalised marketing, yet half the "genetic information" up for sale from companies that interpret your genome to tell you your supposed genetic risk has been shown to be false. It is companies like these that will ultimately hold the power of information, not individuals. This type of marketing can work only if regulators are kept away. There is an obvious regulatory gap.

In reality, genes are poor predictors of most diseases in most people, and no genetic variant, either singly or in combination, meets medical-screening criteria for the general population. This will not be changed by sequencing whole genomes. While technology will undoubtedly get cheaper, biology will remain as complex as it ever was.

Helen Wallace
Director
GeneWatch UK
Buxton, Derbyshire

The following letter appears online only

SIR – As medicine goes digital, major reforms will be required for doctor training. Today's students pay

hundreds of thousands of dollars in loans and delayed earnings to acquire skills that are likely to be outdated or radically transformed. Given that nurses already provide primary-care services very efficiently, it seems that the traditional physician will someday go the way of the elevator operator.

Dr Kas Ray Badiozaman
Virginia Mason Medical Centre
Seattle

Oyez

SIR – It is not quite true that the nine members of America's Supreme Court are "unsackable judges" ("Following Souter", May 9th). Supreme Court judges can be removed if impeached by the House and then tried and convicted by the Senate. Admittedly this process has never been seen through to the end for a sitting judge. We prefer to torment sitting presidents instead.

Edward Grafton
Spring Lake, Michigan

India's election

Singh when you're winning

May 21st 2009 | DELHI, NANDIGRAM AND WARDHA
From The Economist print edition

The Congress party romps to victory by a surprisingly big margin. Its next government will be expected to do rather more than its current one

AFP

EVER unpredictable, Indian voters delivered their pentennial surprise on May 16th, when over 417m ballots were totted up. Reversing decades of decline, the Congress party had won the country's month-long election, which ended on May 13th, by a bigger margin than its most enthusiastic cheer-leaders had dared dream of. Congress and its electoral allies won 261 of 543 available seats. With support from a few tiny regional parties and independents, they will have a majority in India's 15th parliament. On May 20th India's president, Pratibha Patil, therefore reappointed Manmohan Singh prime minister, making him the first prime minister to achieve this distinction at the end of a five-year term since India's first, Jawaharlal Nehru.

Congress itself won 206 seats. This was the best result by any party since 1991, when the murder of Congress's leader Rajiv Gandhi half way through the poll gave it a huge sympathy vote. The Hindu-nationalist Bharatiya Janata Party (BJP), Congress's main rival, won 116 seats, its lowest tally for two decades. In a double boon for Sonia Gandhi, Congress's leader and Rajiv's widow (shown above with Mr Singh), Sri Lanka's government on May 18th declared a final military victory against the Tamil Tiger rebels, her husband's assassins (see article).

Even some who mourn the BJP's lesser thrashing are encouraged by Congress's victory. The outgoing government, formed after Congress surprisingly triumphed in the 2004 election, winning 145 seats, was hobbled by the many venal and incompetent regional and Communist allies that it needed to make up its majority. Unencumbered by this rabble, Congress's next government is expected to be more stable, less corrupt and, at a time of economic crisis, more efficient. Shorn of the Communists, who blocked a clutch of liberal measures before they abandoned the government last year, it could also pass some overdue economic reforms. On May 18th, in two dramatically curtailed sessions of trading, lasting a minute in total, the Bombay Stock Exchange jumped by over 17%. This was close to its biggest daily gain, and roughly the same proportion by which the markets plummeted on May 17th 2004 in response to the current government's formation.

Completing the symmetry, the Communists, who in 2004 won 62 seats, their best result ever, won 24 seats, their worst since 1952. Their decision to campaign against Congress on an arcane foreign-policy issue, a nuclear co-operation deal with America, which was sealed last year despite their efforts to kill it, backfired utterly. According to the National Election Study, a post-poll survey of 30,000 voters by the

Delhi-based Centre for the Study of Developing Societies (CSDS), only 37% had even heard of the deal.

Voters in the Communist stronghold of West Bengal, where Congress made a formidable alliance with the Trinamul Congress party, were more concerned by the Communist state-government's thuggish efforts to acquire farmland for industrial development. Congress and its ally won 25 of West Bengal's 42 seats, and are now hoping to wrest control of a state the leftists have ruled for over three decades. In Nandigram, a picturesque rice-growing region, where West Bengal's rulers tried to acquire land for a petrochemical hub in 2007, sparking battles between peasants and party thugs, crowds gathered to cheer the left's defeat. Abdul Daiyan Khan, a peasant whose son was shot dead by the police during the land war, said he and his neighbours had voted against the Communists for the first time, because: "The party that gave us land now wants to take it away."

In Uttar Pradesh (UP), India's most populous state, for which 80 seats are reserved, another would-be kingmaker, the Bahujan Samaj Party (BSP), also collapsed. Dedicated to *dalits* (Hinduism's former "untouchables"), the BSP had hoped to win most of UP's seats, replicating its success in the 2007 state assembly election. With 50 seats, its autocratic leader, Mayawati, had planned to bargain with either the BJP or the Congress to become India's first *dalit* prime minister. But the BSP won only 21 seats, largely because its sometime non-*dalit* supporters forsook it. Many of these Muslims and higher-caste Hindus voted for Congress, which came away with 21 seats, more than double its previous tally.

As Miss Mayawati takes revenge for her humiliation—on May 18th she sacked 100 senior civil servants to whom she had given the task of delivering her victory—Congress's progress in UP has inspired some excited analysis. The rise of regional and caste-based parties, such as the BSP, has been the dominant theme in Indian politics for two decades. Some pundits see an end to this. They argue that Indian voters, showing unsuspected perspicacity, have recognised the need for stable central governments, which only national parties can provide. The survey by CSDS seems to agree with this. Only 20% of respondents did not consider coalition governments harmful, down from 31% in 2004.

Yet the results do not support this theory. The combined vote-share of India's two national parties has continued to fall, to 47.3%. And the increase in Congress's share, from 26.5% in 2004 to 28.5%, was quite modest considering that, with fewer allies than in 2004, it contested 23 more seats. Congress's relative leap in seats bespeaks an increasingly crowded field. This worked to its advantage in many places, including Mumbai, Tamil Nadu and, especially, Andhra Pradesh (AP), where it won 33 seats and retained control of the state government in a concurrent poll.

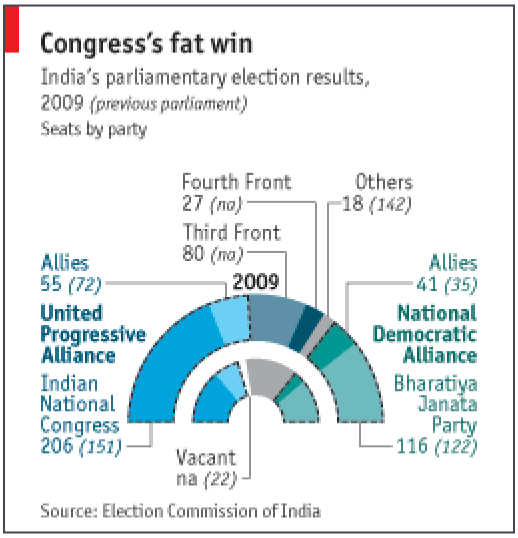
According to AP's chief minister, Y.S. Rajasekhara Reddy, who has now delivered Congress's biggest tranche of seats in consecutive elections: "The credibility of the government of India and of Andhra has been established in the minds of the people." But without the vote-splitting debut of a small party led by the state's most revered film-star, known as Chiranjeevi (the "immortal one"), Congress would have suffered.

In fact, many regional parties did fine, including two with well regarded governments in Bihar and Orissa. Perhaps the most that can be said is that Indians are growing impatient with parties that appeal to them only on the basis of caste, region or religion, neglecting their welfare. Congress may have prospered in UP, speculates Yogendra Yadav of CSDS, partly because it was the only main party not to have run a dreadful government there recently. Vinay Tiwari, a Brahmin landowner in the remote village of Harihar Patti, in a region of northern UP swept by Congress, is a speck of evidence for this. He had previously voted for the low-caste Samajwadi party and the BJP. But he was turned off by the record of the former party's candidate and by the Hinduist party's habit of inciting violence against Muslims. So Mr Tiwari plumped for Congress—"the party of my forefathers"—and instructed his 12 relatives and 50-odd *dalit* labourers to do likewise.

Yet he would not have done so if he, like millions of others, had not felt surprisingly sunny towards the Congress-led government. According to CSDS's survey, 57% of Indians wanted to give the government in Delhi another go, compared with 48% in 2004. Thus, Congress fulfilled, or surpassed, its most optimistic expectations in almost every state.

In Rajasthan, a sometime BJP stronghold, it picked weak candidates, ran a ragged campaign, and won 20 of 25 seats. In Madhya Pradesh, where the BJP retained power in a state election last December, and expected to clean up, Congress won 12 of 29.

In Gujarat, India's most industrialised and Muslim-phobic state, where the BJP has won four successive state elections and has its most talismanic leader, Narendra Modi, Congress got 11 of 26 seats. Clearly, this election was more than the usual aggregate of state-level verdicts.



Two explanations suggest themselves, starting with the obvious one. In the past five years, India's economy has grown at an average annualised rate of 8.5% a year, including a relative slump to less than 7% in the financial year that ended in March. Driven by services, which contribute over half of GDP but employ only a quarter of the workforce, this boom has benefited too few Indians—yet more than is often supposed. Blessed with four good monsoons and high food prices, agriculture, which contributes around 20% of India's GDP but supports over 60% of its 1.1 billion people, has grown at a relatively healthy 3.4% a year. Until late last year, most Indians' main economic worry was inflation, which soared to 13% last August, largely because of high oil prices. But in the slowdown, from which rural India is somewhat immune, inflation has fallen sharply.

A thank-you to Congress

Under Mr Singh, who as finance minister in 1991 unleashed historic economic reforms, Congress can claim to have managed the economy quite well. Despite failing to bring much further reform, it has clearly allayed the market's dread. It is, CSDS suggests, the most popular party among the richest 20% of Indians, who traditionally vote BJP. This helped Congress get every seat in Mumbai and Delhi.

On the back of some lavish welfare schemes, Congress also strengthened its base among the rural poor. The National Rural Employment Guarantee Scheme, a huge public-works project from which the government says 44m families have benefited, was especially popular in Rajasthan and AP. A massive debt write-off for some 43m farmers last year, which cost 1.6% of GDP, was another vote-winner.

In north-eastern Maharashtra, a parched cotton-growing terrain where rates of indebtedness and suicide among farmers are high, Congress and its regional ally, the Nationalist Congress Party, gained four seats. In Keljhar, a village in Wardha district, where one farmer took poison last year and another hanged himself, everyone seems to have voted Congress. Asked why, they cite the loan-waiver scheme, the decent price for cotton set by Maharashtra's Congress government—and their fear for the future. "This is among the worst years ever. There has been little rain and the canals are dry," said Ganand Dada Narad, who had been forgiven almost half his 50,000-rupee debt ($1,100), which he had incurred when marrying off his daughters.

Wardha was also where Rahul Gandhi, who is Mrs Gandhi's 38-year-old son, Mr Singh's presumed successor and Congress's most energetic campaigner, opened his campaign. Mr Gandhi, who entered politics in 2004, can seem naive and awkward—and by extension, in India's filthy politics, sincere and uncorrupted. Credited with Congress's decision to fight alone in UP and Bihar, where it won a healthy 10% of the vote though only two seats, he suddenly appears more astute.

Reinforcing this impression, he is reported to have declined to join the new cabinet in order to spend time strengthening the party. As a faint echo of his mother's hugely respected renunciation of prime ministerial office in 2004, in favour of Mr Singh, this strikes some as further proof of Mr Gandhi's integrity.

Leader wanted for the BJP

The Congress trinity—the two Gandhis and Mr Singh—does not set Indian hearts ablaze. Yet their quiet virtues look uncommonly good against their vagabond peers—including the 72 about to enter the Lok Sabha, India's parliament, charged with serious crimes.

This may be another reason for Congress's strong showing. Asked by CSDS who they wanted to be prime minister, 14% of respondents named the BJP's chosen man, L.K. Advani. Congress's three leaders got lower ratings, but together were selected by 38%. By contrast, the next-placed BJP man, Atal Behari Vajpayee, Mr Singh's now non-functioning predecessor, was named by 3%, and Mr Modi, Mr Advani's expected successor, by only 2%.

That leadership is a problem for the BJP has long been clear. Mr Vajpayee, a charismatic and conciliatory figure, had been able to appeal to the BJP's Hinduist ideologues—and also allay the concerns of his secular allies over their crackpot, Hinduised version of history and enthusiasm for inciting religious violence. Mr Advani, an octogenarian Hindu hardman, who led the campaign that propelled the BJP to power in the 1990s, demanding that a Hindu temple be built on the site of a 16th-century mosque in UP, is more divisive.

With Indians showing little appetite for Hindu chauvinism, he has downplayed it, but fitfully. His stuttering failure to take action against a BJP candidate, Varun Gandhi, who in a campaign speech issued vile threats against Muslims, suggested either weakness or approval. Unsurprisingly, Mr Advani has failed to woo back the several important allies who deserted the BJP after its 2004 defeat. He must also have unnerved the party's main remaining ally, Bihar's leader, Nitish Kumar, who has many Muslim supporters. Mr Kumar demanded that Varun Gandhi be prosecuted and, until the voting in Bihar was over, avoided appearing alongside Mr Modi.

Meanwhile the BJP failed to convince with its pet secular boasts: that it could manage India's economy and national security better than Congress. Against the sagacious Mr Singh, Mr Advani is an economic illiterate. Nor, given most Indians' aversion to liberal reform, can the BJP boast of its relatively pro-reform record. Twisting the dirk, Congress's manifesto includes a rejection of "the policy of blind privatisation followed by the BJP-led…government".

Congress's attack on the BJP's national-security credentials was more sophisticated. In particular, the government's response to the devastating attack in Mumbai by Pakistani terrorists last November was impressive. Mixing aggressive statements at home with resourceful diplomacy abroad, it managed to seem tough, but not reckless. By sacking its home minister and forcing out the Congress chief minister of Maharashtra, it assuaged public anger over its lousy first reaction to the crisis. The BJP, by castigating Mumbai's police and using blood-spattered images of the tragedy for its propaganda, presented itself as opportunistic, if not unpatriotic.

Even without these failures, the Hindu nationalists were always bound to struggle against a resurgent Congress. Given the usual anti-incumbency instincts of Indian voters, they were expected to lose ground in several of their northern strongholds, including Rajasthan where they fared well in 2004. The BJP and Congress were both relatively unbolstered by electoral allies—and Congress has more national appeal. The BJP ran 433 candidates in this election, almost as many as Congress, and 69 more than in 2004. But whereas Congress came in first or second in 350 seats, the BJP achieved this in only 225. Indeed, the difference between the two parties' reach has widened. In UP, where the BJP surged in the 1990s and had hoped to win 30 seats, it won ten. And more than 30 of its candidates allegedly lost their deposits.

AFP

Congress's merry month of May

The Hindu nationalists can recover. As Indians become rapidly more urban, consumerist and, perhaps, nationalistic, the BJP's target-audience is growing. But to take advantage of this, the party will have to ease its ideological strictures and expand geographically. Under Mr Modi, who is currently barred by America because of his alleged complicity in an anti-Muslim pogrom in Gujarat in 2002 in which 2,000 people died, it might find this impossible. He is clearly the party's most charismatic leader. Yet on current form the 182 seats won by the BJP in 1999, after a small war with Pakistan roused nationalist and Hinduist sentiment, look like its peak potential. If so, all it can hope for is to lead the sort of fractious coalition government that many now pray to have seen the back of.

The challenge of rising expectations

It would be unwise to bank on Congress answering that prayer. With a history of arrogance and infighting, it could squander its advantage—a decade ago, after all, it had only 114 seats. But that was after several years without Gandhi leadership. And, remarkable as it would have seemed then, Mrs Gandhi, Italian-born and a reluctant politician, has proved sufficient to restore order to the party's disparate factions and regional parts. On the strength of this poll, Rahul Gandhi, for all his shortcomings, now has a fine opportunity to rebuild Congress. And if it could do even better in UP in India's next general election, as seems possible, its government in Delhi could prove awfully hard to dislodge.

Then again, Indian voters are not to be second-guessed. And Congress must now earn their support. In a country with 60m malnourished children, 40% of the world's total, and an abysmal record in providing its citizens with the basic education and medical care that is supposed to be theirs by right, there is much to be done. And freed of its most troublesome allies, Congress will have no excuse for failure.

Mr Singh, who says the party's victory "comes with a challenge of rising expectations", appears to welcome this. On May 19th he challenged his new government to provide "a social and political environment in which new investment can be made." If that promises some liberal reforms, of the country's statist financial sector, for example, or its ruinously politicised higher education, Congress's victory would be welcome indeed.

Few in Congress claim to want such changes, however, and Mr Singh, beholden to Mrs Gandhi, does not command his party. Sadly, not much reform may follow. But for many Indians, and all who wish the country well, this is still a pleasing moment. The divisive BJP and belligerent Communists have been forced to think again. The venal SP, whose manifesto included a pledge to curb the worrying spread of computers and English, is not in the government. And Miss Mayawati, who had hoped to be India's next prime minister, is stuck in UP, inspecting the many statues of herself that she is building there.

America and climate change

Cap and trade, with handouts and loopholes

May 21st 2009 | WASHINGTON, DC
From The Economist print edition

The first climate-change bill with a chance of passing is weaker and worse than expected

Illustration by KAL

AL GORE calls it “one of the most important pieces of legislation ever introduced in Congress”. Joe Barton, a Republican congressman and global-warming sceptic, says it will put the American economy in a straitjacket. For something that practically no one has read, the American Clean Energy and Security Act provokes heated debate. It would establish a cap-and-trade system for curbing carbon-dioxide emissions, thus transforming the way Americans use energy.

President Barack Obama has long argued that America should join Europe in regulating planet-cooking carbon. But he has left the details to Congress. And the negotiations to craft a bill that might actually pass have not been pretty. The most straightforward and efficient approach to reducing carbon emissions—a carbon tax—was never seriously considered. Voters do not like to hear the word “tax” unless it is followed by the word “cut”.

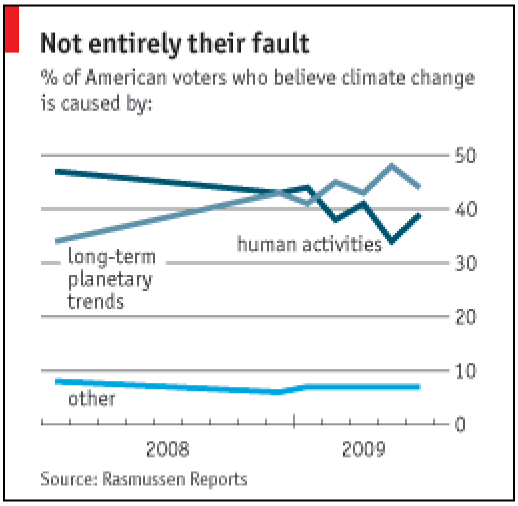
So Mr Obama proposed something very similar to a carbon tax, albeit slightly more cumbersome. Industries that emit carbon dioxide would have to buy permits to do so. A fixed number of permits would be auctioned each year. The permits would be tradable, so firms that found ways to emit less than they were entitled to could sell some of their permits to others. The system would motivate everyone to reduce emissions in the most cost-effective way. It would raise energy prices, which is the point, but it would also raise hundreds of billions of dollars, most of which Mr Obama planned to give back to voters. Alas, that plan looks doomed.

On May 15th Henry Waxman and Edward Markey, the Democratic point-men on climate change in the House of Representatives, unveiled a bill that would give away 85% of carbon permits for nothing, with only 15% being auctioned. The bill’s supporters say this colossal compromise was necessary to win the support of firms that generate dirty energy or use a lot of it, and to satisfy congressmen from states that mine coal or roll steel.

Giving away permits creates several problems. First, it generates no money, thereby royally messing up Mr Obama’s budget. Second, it means that the permits go not to those who value them most (as in an auction) but to those whom the government favours. Under Waxman-Markey, electricity-distributors

would get the largest share, with the rest divided between energy-intensive manufacturers, carmakers, natural-gas distributors, states with renewable-energy programmes and so on. Oil firms, with only 2% of the permits, feel hard done by. But most polluters, having just been promised hundreds of billions of dollars' worth of permits for nothing, are elated. So it is not just the owners of ski resorts and businesses with negligible carbon footprints that are queuing up to praise the bill. Duke Energy, a power generator with lots of coal-fired plants, is also enthusiastic.

The grand handout to shareholders is meant to last until around 2030, by which time all permits will be auctioned. In the meantime, the bill's supporters say that consumers will be protected from higher energy prices because the largest chunk of the free permits will go to tightly regulated electricity distributors. Regulators can simply order these firms to keep prices low. Problem solved.



Not so, says Alan Viard, an analyst at the American Enterprise Institute, a conservative think-tank. If electricity is cheap, Americans will buy more of it, generating more emissions than would otherwise have been the case. Other industries will accordingly have to cut their emissions more, since there are a fixed number of permits. The cost of this will be passed on to consumers. Overall, ordinary Americans will endure price hikes just as severe as they would have under Mr Obama's plan, while receiving far less compensation. Mr Viard likens giving permits to polluters to handing the proceeds of a tobacco tax to the shareholders of Philip Morris.

Another problem with Waxman-Markey is its complexity. At 932 pages, it is half as long again as an already-bloated previous draught. It includes a dizzying array of handouts, mandates and technical standards for everything from hot-food-holding cabinets to portable spas. It allows for a huge increase in "offsets"—where a polluter pays someone else to stop polluting instead of curbing his own emissions. These are open to abuse, as Europe's experience shows. There is little to stop foreign factories from starting to pollute just so that someone will pay them to stop.

Among environmentalists, support for the bill varies. Some denounce it for doing less to curb greenhouse gases than was once promised. It aims to cut emissions by 17% below the level in 2005 by 2020, instead of 20%. Greenpeace's American arm says it cannot support the bill in its current state. Other greens reckon that if this is the strongest bill that can pass, the best idea is to pass it now and tighten it later.

That is the most likely outcome, though far from certain. Mr Waxman wants his bill to pass through the House energy committee this week. Republicans such as Mr Barton could slow it down by offering hundreds of amendments or forcing it to be read aloud. (Mr Waxman has hired a speed-reader, just in case.) But they probably do not have enough votes to stop it, either in committee or when it eventually comes before the full House.

The next step will be the Senate, where the minority has more power. It is hard to predict what will happen there. Republicans plan to berate the bill as both a job-destroyer and a handout to big business. Some will also argue that it will make little difference to the climate if China and India do not also curb their emissions.

The bill's supporters retort that both countries will come on board only if America sets a good example. Time is running out before the big global climate conference in Copenhagen in December. If the United States does not have a cap-and-trade law in place by then, the chance of a global agreement will plummet. The bill may be imperfect, says Steve Tripoli of Ceres, a green business group, but having no bill at all would be unthinkable.

Meanwhile, Mr Obama continues to attack climate change from other angles. On May 19th he announced that he would impose tougher fuel-efficiency standards. Carmakers will have to produce vehicles that go eight miles farther on a gallon of petrol by 2016. Cars must eke out 39 miles (63km) per gallon, on average; light trucks must manage 30 miles. Carmakers, some of whom would be bankrupt if Mr Obama was not pumping them full of taxpayers' money, meekly applauded. In the past an agreement such as this would have been thought impossible, the president crowed.

Mr Obama admitted that more fuel-efficient cars might cost more. But he promised that motorists would

save thousands of dollars by cutting their fuel bills. In fact, they can already cut their fuel bills by buying smaller cars, but most choose not to. Mr Obama could discourage petrol use more directly and efficiently by taxing the stuff, but that would be unpopular. Ideally, politicians who want to save the planet would be honest with voters about how much this will cost. But America's leaders do not seem to think Americans are ready for straight talk about energy.

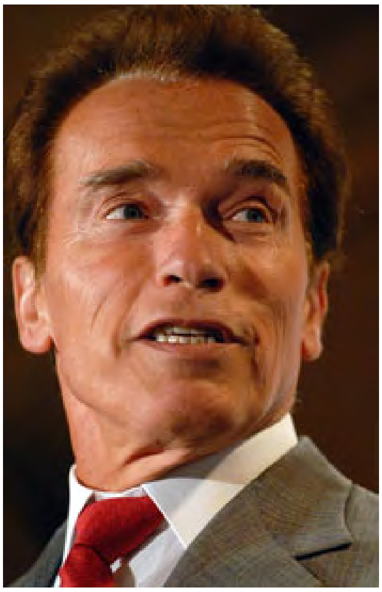
California's budget crisis

No gold in state

May 21st 2009 | SAN FRANCISCO
From The Economist print edition

Voters reject a ballot they could not comprehend

Eyevine


Hair-raising stuff

AT ONE point during his desperate campaign for six ballot measures meant to reduce California's gaping budget deficit, Arnold Schwarzenegger, the governor, pleaded with voters not to make California "the poster child for dysfunction". But on May 19th they did exactly that.

Confused and bored by the wonky and tangled wording on the ballot, most voters ignored the election entirely. Those who did turn out rejected all measures except one that freezes legislators' pay during budget-deficit years—a ritualised form of venting general anger. Mr Schwarzenegger, already unpopular before this crisis, may well now be remembered as a failure. On election day, he fled the state for the more flattering photo opportunity of joining Barack Obama in the White House Rose Garden to announce tighter national fuel-efficiency standards for cars.

As a result of California's election, the state now faces a $21.3 billion gap between revenues and spending. Life, which has been no picnic for many in this state since the recession began, is about to get a lot worse. There have already been two rounds of budget cuts since last autumn. A third, savage, round must now follow.

Mr Schwarzenegger has already hinted at the cuts he will propose to the legislature. The easy part is to release prisoners. California's 33 prisons, with about 168,000 inmates, many of them locked up because of inflexible sentencing laws passed by voters, are scandalously overcrowded. Mr Schwarzenegger is thinking about freeing 38,000 people. Half of them are undocumented immigrants whom he would transfer to federal custody.

But "the real money is where the pain is", says Jean Ross of the California Budget Project, a research firm in Sacramento. In health care, for instance. Just as Mr Obama is trying to give more people access to medical care, California will be taking it away: by cutting funding for Medi-Cal, the state's programme for the poor, and changing eligibility rules for another programme so that 225,000 children are likely to lose coverage. And this at a time when many of their parents are losing their jobs and their employer-sponsored insurance.

Other programmes, from help with birth-control and HIV-prevention to counselling against drug abuse and domestic violence, will be made smaller or eliminated altogether. Child-welfare programmes will be cut by 10%. This means fewer investigations into allegations of child abuse and less supervision of foster care, even as more children are likely to be abused in difficult economic times, says Linda Canan at the Napa County Health and Human Services Agency.

Cuts in the education budget will probably shorten the school year by a week, require teachers to be laid off and cause classes to get bigger. The University of California, a network of ten campuses, will face cuts equivalent to 50,000 fewer students and perhaps 5,000 fewer staff.

It doesn't end there. A plan, previously rejected, to drill for oil off the coast near Santa Barbara will be revived. And a statewide yard sale will be held. State properties, from a big coliseum in Los Angeles to concert halls and fairgrounds, will be auctioned off. Even the San Quentin prison, built during the gold rush and housing the state's death row, may go. Jeff Denham, a Republican state senator who votes resolutely against any attempt to raise taxes, has for years wanted to move the prison to a cheaper place inland in order to sell its "ocean-front property" in the bay north of San Francisco. He may now get his way.

Shaun Donovan at HUD

Recovery begins at home

May 21st 2009 | BROOKLYN
From The Economist print edition

The new man intends to shake up his department

PEOPLE are sceptical about HUD, the federal Department of Housing and Urban Development. It has a history of "inability to deliver". Common sentiments among housing activists; odder to hear them from Shaun Donovan, HUD's new secretary. Just 100 days into his job Mr Donovan accepts that his department, created to increase homeownership, support community development and provide access to affordable housing free from discrimination, has not lived up to its mission.

And it is some mission at the moment. Unemployment is approaching 9%. There were 2.2m foreclosures last year. According to RealtyTrac, a property analyst, foreclosure filings last month increased by 32% over April 2008; one in every 374 housing units received a filing, the highest figure RealtyTrac has recorded. Though repossessions by banks were down in April, a spike is expected this year. And at the centre of HUD lurks the Federal Housing Administration (FHA), the country's largest mortgage insurer, which has been described as "a subprime entity within the federal government"—with all that that implies.

But "in crisis, there is opportunity", says Mr Donovan. And HUD is trying to seize it. A "Homeowner Affordability and Stability Plan" announced in February, aims to help 7m-9m homeowners stay in their homes. On May 12th it announced that a $8,000 tax credit for first-time homebuyers could be used as down-payment on a mortgage from the FHA. Earlier this month, HUD said it would provide $2 billion in stimulus funds to stabilise neighbourhoods hit by foreclosure. More than any other HUD secretary, Mr Donovan is sitting "at the table" with the president and Tim Geithner, the treasury secretary.

The 43-year-old New Yorker, though he looks like a fresh-faced boy, is well qualified. He worked for HUD under Bill Clinton, and has spent time in academia as well as in the private housing sector. Most recently he was New York City's housing commissioner. He headed Mayor Michael Bloomberg's $7.5 billion New Housing Marketplace Plan, which will build or preserve 165,000 units for low- and moderate-income families by 2013. And he helped implement PlaNYC, a long-term scheme to build houses for up to 1m New Yorkers, link them to transport, clean up brownfields, plant 1m trees and improve air and water across the five boroughs. City agencies, non-profits and private firms all worked together. Often the only roadblock to innovation in New York, he found, was HUD.

Effective land use particularly interests him. Traditionally, the federal government has nothing to do with that; it treats it as a local matter, and a dangerously controversial one. Mr Donovan means to change that. In New York he re-zoned huge swathes of land from commercial to residential use. He points with particular pride to a development in Brooklyn's Williamsburg, where he successfully re-zoned decaying lots and warehouses on the waterfront for mixed income residential use, a park and a ferry to Manhattan.

Even as he battles the housing crisis, Mr Donovan is setting an agenda, one not seen in decades. He wants HUD to be more than the department of subsidised housing, and hopes to focus too on the urban development side. A big fan of statistics, he looked at foreclosure patterns and observed that neighbourhoods with the highest rates were in the least sustainable places, in isolated suburbs and older urban areas far away from jobs and schools. This suggests that the recession may shake out and slim down cities, making them eventually better places to live.

Mr Donovan is already collaborating with Arne Duncan, the education secretary, and the heads of the Departments of Energy and Transport, as well as Mr Geithner. He is keenly aware that HUD is not just for cities—that traditional "urban problems", such as poverty and affordable housing, are now regional problems. Conversely, he is aware that urban development is also about better transport links and better schools. It all hangs together.

A terrorist plot in the Bronx

Foiled by the Feds

May 21st 2009
From The Economist print edition

A plan to bomb Jewish targets in New York and shoot down American aircraft

AP

Their untouched target

THE plot was dastardly and elaborate, but this seems to have been a gang that couldn't shoot straight. On the night of May 20th four men, at least three of them American citizens, all living in Newburgh, a town 60 miles north of New York City, were arrested after planting bombs outside a synagogue and a Jewish centre in the Bronx. Their plan is said to have been to return to Newburgh, set off the bombs by remote control, and then use shoulder-launched missiles to shoot down aircraft at a military base at Stewart International Airport.

Had it succeeded, this would have been the first terrorist spectacular on American soil since September 11th 2001, bearing the al-Qaeda hallmark of simultaneous attacks on multiple targets. But, in fact, the plotters never had a chance.

For 11 months they had been played for suckers by the FBI, which had not only monitored their plans but also provided the bombs and missiles—all duds incapable of being detonated or fired. The FBI had trailed the group since one of their number, James Cromitie, had confided unwittingly to an FBI informant that he wanted to do something to hurt America, lamenting that the "best target"—the World Trade Centre—had already been struck. Mr Cromitie and his three accomplices were nabbed red-handed this week as soon as they had parked their bomb-laden cars outside the synagogue and centre.

It is not unusual for police to penetrate plots early and let them run while collecting intelligence. In 2007 five terrorists were convicted in Britain after police had replaced the ammonium nitrate they had intended to use for bombs with harmless stuff. But this "risk-management" approach suggests a change for the FBI. In the years immediately after September 11th the bureau's priority was to disrupt plots at the earliest opportunity, even on the ground of immigration violations.

When plots are foiled or fail, they can look comical. In 2007 two inept terrorists were hoist on their own petard when their bomb-laden jeep got wedged in the doorway of Glasgow airport and caught fire. But a thin line separates success from failure—and homegrown from global terrorism. All the Bronx plotters were reported to be Muslims. The young British Muslims who blew themselves up on London's Tube in 2005 were thought at first to be acting alone. Only later did it transpire that their leader had gained his bomb-making skills as well as his inspiration from al-Qaeda itself.

Prison costs and budget cuts

No more room, no more money

May 21st 2009 | PORTAGE, WISCONSIN
From The Economist print edition

So what's to be done?

IT WAS designed to hold 541 inmates, but Columbia Correctional Institute, a brick prison in Portage, Wisconsin, usually houses about 830. New building has helped a bit—metal bunks fill a concrete box added in 1997—but many cells meant to house one inmate now hold two. When there are more prisoners than bunks, as is often the case, beds are laid on the floor.

"This is pretty much typical for the system," says Gregory Grams, Columbia's warden. Wisconsin's prison population grew by 14% between 2000 and 2007 but, in the same period, the rate of violent crime rose by 23%. By 2019 the number of prisoners is expected to have swollen by another 25%, with a price tag of $2.5 billion.

Facing a $6.6 billion deficit this year, Wisconsin can hardly afford to expand its prison system further. On May 20th a special committee led by Lena Taylor, a state senator, presented draft bills to contain prison costs and improve safety. Jim Doyle, Wisconsin's governor, has proposals of his own within the state budget, which must pass by June 30th.

Wisconsin is not alone. Nearby Michigan, which spent a staggering 22% of its general fund on corrections last year, is debating reforms. Three judges in California have instructed that state to cut its prison population by one-third by 2012. And in Washington, DC, members of Congress are mulling over ways to help state governments curb their prison costs, as well as crime rates.

State correction systems have exploded in recent decades. The Pew Centre on the States, a research outfit, reports that one in 100 Americans is incarcerated. One in 31 is in prison, on parole or on probation. This is expensive. Corrections have gobbled more and more of state budgets, at a faster pace than any government service except Medicaid. In 2008 spending on corrections was 303% greater than two decades earlier.

New laws, not more crime, are the main factor. Since the 1970s, when parole boards had wide discretion to release prisoners, states such as Wisconsin have set mandatory minimum sentences and applied baseball's "three-strikes" rule to the national pastime of incarceration, often locking up repeat offenders for life. In the 1990s federal incentives prodded the states to adopt "truth in sentencing", meaning that a court sentence would be completed in full, ending rewards for good behaviour behind bars. Mr Grams noted a change both in the time offenders spent at Columbia and in the prison's "climate", a euphemism for whether inmates behave well or abominably.

Outside the prison walls, rehabilitation and job programmes remain inadequate. In Wisconsin 55% of those in prison in 2007 had been on parole or probation, according to the Justice Centre at the Council of State Governments, a non-partisan group advising the state.

Ms Taylor points to Texas and Kansas as examples of states where reform has begun to reverse these trends. The Justice Centre counselled both states in 2007. The ensuing policy changes expanded treatment programmes in the community and strengthened supervision of those on probation and parole. In Texas the prison population grew by only 529 inmates between January 2007 and December 2008, rather than the 5,141 predicted before reform.

In Wisconsin the governor and Ms Taylor's committee, advised by the Justice Centre, have proposed different plans, but they have much in common. Each would allow an inmate to serve a shorter sentence if he completed certain programmes, such as job training. To keep offenders from repeating their mistakes, each would improve treatments for problems such as mental illness and drug abuse.

The proposals have many critics. Mr Doyle's plan to end "truth in sentencing" has upset Wisconsin's

attorney-general and legislators such as Scott Suder, who calls it the “let ’em loose early” scheme. Concern over Wisconsin’s deficit may scuttle the committee’s proposal, which costs $30m. But the Justice Centre estimates that investing $30m today would avert spending $2.3 billion by 2019.

A mystery bat disease

Cute but contagious

May 21st 2009 | RICHMOND, VIRGINIA
From The Economist print edition

And coming, sadly, to a cave somewhere near you

AP

SWINE flu may get the headlines; but white-nose syndrome, a fungal disease that shows as a powdery pattern on the face, wings and legs of bats, is moving far more swiftly across America. Bat colonies have been decimated in at least seven states: New York, Vermont, Massachusetts, Connecticut, Pennsylvania, Virginia and West Virginia. At least half a million bats have died, depriving the country—particularly in the spring and summer months—of a natural pesticide. Bats consume huge quantities of insects: as much as their own body weight during a night aloft. The Forest Service estimates that the die-off from white-nose syndrome means that at least 2.4m pounds of bugs (1.1m kg) will go uneaten.

The effects of the disease, though, go beyond an itchy evening in the garden. Without bats, farmers may have to use more insecticide, raising environmental worries and pushing up grocery prices. And white-nose syndrome could threaten already endangered species, such as Indiana bats, tiny creatures with pink noses that flutter from the north-east to the mid-Atlantic, and the big-eared bat, the official state bat of Virginia.

The disease appears to have originated in New York state, in caves and mines in the Adirondack mountains. Now it is turning up farther south, in Virginia and West Virginia. It may be carried on the boots and gear of humans who poke about in caves. Scientists, however, suspect that it is transmitted bat-to-bat. The disease disorients bats, disturbing their sleep and causing them to fly when they normally don't, during hibernation. Unable to find insects, they weaken and die.

The federal Fish and Wildlife Service has advised closing caves to explorers in 20 states, from the Midwest to New England. This directive, enforced with fines and jail, will soon be extended to 13 southern states. After all, as one Virginia scientist points out, "If it gets into caves more to our south, in places like Tennessee, Kentucky, Georgia and Alabama, we're going to be talking [deaths] in the millions."

Statewatch: Colorado

Scrambling out from under

May 21st 2009 | VAIL
From The Economist print edition

But Western libertarianism is no help at all

IN VAIL, a posh ski resort, the year is split into two seasons: one for skiing and the other for building. In winter, youthful ski-bums operate chairlifts and groom the trails in exchange for miserly pay and a season pass. During the summer many find work in construction, putting up new lodges and multimillion-dollar chalets.

But as this year's snow melts, many are finding the transition difficult. There is little to build. In the first three months of 2008 Vail issued building permits worth $19.8m in new development. This year, they are worth $4.9m. "People are coming off the mountain looking for construction jobs and they just don't exist," says Michelle Evans, who owns a construction company.

Construction is not the only sector affected. County sales-tax revenue is down 20%. Lodging-occupancy has fallen by 15% from last season, and summer bookings are down significantly. Property sales, in a market once so competitive there were more estate agents than places to buy, are down 40% on 2007. Vail is slashing its budget by nearly $1m (from $30m) and may well cut more. "This is the first time in memory that this area has felt an economic downturn similar to the rest of the country," says Charlie Dolan, a local builder.

Yet the housing bubble in Colorado's cities and suburbs burst earlier. Colorado had the highest foreclosure rate in the country in 2006 and ranked second in 2005, according to RealtyTrac, a property analyst, and as a result the state government was spurred into action well before others moved. Before 2007, Colorado and Alaska were the only states that did not require a state licence for mortgage-brokers. Now Colorado regulates the industry and bans a number of injurious practices. In 2008 the state sued Countrywide Financial, a mortgage-broker, for deceptive lending policies. This led to a $6m settlement, benefiting 6,800 borrowers. And banks must now refer homeowners to a network of state-funded foreclosure-counselling agencies, which can suspend a foreclosure for up to 90 days in order to renegotiate payments.

This is making a difference. Foreclosure filings declined only slightly last year, but the counselling service saved over 4,000 homes from the auction block. Nor have home prices plummeted as they have in other states. According to Standard & Poor's, house prices in Denver dropped only 4% last year, the smallest fall of the 20 largest American cities, where the average decrease was 18.5%.

Alamy

Alive with the sound of renewables

Colorado's economy remains healthier than many others. Unemployment in March stood at 7.5% compared with 4.6% a year ago, but still below the national rate of 8.5%. And years of economic diversification away from manufacturing and the cyclical oil and gas industry have improved prospects for growth. In an annual survey by the Milken Institute, a think-tank, Colorado ranks third in its ability to use science and technology assets for economic development, ahead of California.

Another bright spot is Colorado's nascent renewable energy sector. In February, when Barack Obama came to Denver to sign the economic-stimulus legislation, Bill Ritter, the governor, welcomed him to "the home of the new energy economy". Since taking office two years ago Mr Ritter has signed legislation requiring 20% of state energy to be produced from renewable sources by 2020, and has formed a research partnership between Colorado's universities and the Department of

Energy's National Renewable Energy Laboratory, west of Denver.

Colorado has quadrupled wind-energy production since the governor came in. A new solar power plant, the third-biggest in the country, has been built in the south of the state. More projects are planned. But although the renewable-energy sector is growing by 30% a year, Mr Ritter's dream of making it the foundation of economic growth seems chimerical. Apart from temporary work for builders, the industry directly employs only 1,500-3,000 people, according to the University of Colorado.

The most pressing challenge lies in sorting out the state's fiscal problems. This year's budget, signed on May 1st, overcomes a $1.4 billion deficit by tapping into emergency reserve funds and cutting state services, while injecting federal stimulus money.

But it is after the recession that the problems start. Colorado has a number of libertarian anti-tax laws and spending restrictions that make it difficult for state funding to recover after a downturn. A 1992 amendment to the state constitution, known as the Tax Payer Bill of Rights (TABOR), requires voter approval to raise state and local taxes, and any yearly revenue increase (adjusted for inflation and population growth) must be refunded. Another statute does not allow general-fund spending increases of more than 6% over the previous year's budget, unless they go towards transport or capital projects.

These restrictions make it difficult to return to pre-recession budget levels. Over the years voters have loosened some of TABOR's restrictions temporarily, and on April 28th lawmakers passed a bill relaxing the 6% limit. But unless the rules can be changed to allow the legislature more leeway to raise funds, the recovery may be more painful than the recession.

Lexington

Read it and weep

May 21st 2009
From The Economist print edition

Comedians have yet to figure out how to mock Barack Obama. The only exception is a newspaper founded in 1421

Illustration by KAL

REAL reporting is easy. Making the news up is much harder. So the weekly editorial meeting at the *Onion*, a spoof newspaper based in New York, is intense. One writer clutches a human skull. Another wields a threatening stick. Yet another walks in late, looking scruffy and eating a chocolate cereal bar. Alert readers would recognise him as the cover model for a feature in 2006 on “Heterosexual Men’s Fashion”.

Someone hands round a list of 124 bogus headlines, all written in the sombre style of the *New York Times*. After two hours of raucous banter, the list is winnowed to a dozen. At a second meeting, the chosen headlines are fleshed out and writers are assigned to turn them into stories. Recent gems include “Detroit Mayor Throws First Brick in Glass-Breaking Ceremony for New Slum” and “Hero Woman Changes in Front of Open Window”. Alas, Lexington is not at liberty to disclose next week’s fake news. But the headlines that were scrapped are not bad. An opinion piece by Barack Obama, for example, is entitled “Should You Ever Feel Despair, Simply Remember How Eloquent I Am”.

The real Mr Obama baffles other comedians. David Letterman, a talk-show host, describes him as “cogent, eloquent, and in complete command of the issues” and sighs: “What the hell am I supposed to do with that?” The new president is “not fat, not cheating on his wife, not stupid, not angry and not a phoney”, complains Bill Maher, another small-screen joker. Chris Rock, a stand-up comic, likens Mr Obama to Brad Pitt. “There’s no Brad Pitt jokes,” he told CNN. “You know, what are you going to say? ‘Ooh, you used to have sex with Jennifer Aniston. Now you have sex with Angelina Jolie. You’re such a loser’.”

At the White House correspondents’ dinner this month, Mr Obama was the guest of honour. The traditional task of roasting him fell to Wanda Sykes, a comedienne. Visibly star-struck, she ignored the crowd and addressed herself to the president, who was sitting nearby. She teased him for looking handsome with his shirt off, and saved her venom for his critics. Of Rush Limbaugh, a conservative talk-radio star, she said: “I hope his kidneys fail.” On hearing her routine, Christopher Hitchens, a polemicist, remarked that “when comedians flatter the president, they become court jesters, and the country becomes a banana republic.”

Mr Obama himself can be pretty amusing. His speechwriters are skilful and he delivers punchlines with a certain deadpan panache. Discussing his plans for his second 100 days in office, for example, he promised to “design, build and open a library dedicated to my first 100 days”, and to “strongly consider losing my cool”. One can’t help noticing that when Mr Obama mocks himself, he mocks himself for being super-human.

Conservative satirists would love to toss some kryptonite at him, but he is a slippery target. His race makes some cautious, for a start. And anti-Obama jokes on the internet are pathetic. Most sound bitter rather than witty. For example: “Why did Barack Obama cross the road? Answer: To help the other side.” Conservative cartoonists are struggling to pierce Mr Obama’s armour. Sometimes the best they can do is to suggest that, in time, he will not look so impressive. For example, Scott Stantis, a cartoonist for the *Birmingham News* of Alabama, drew a picture of a big ugly monster labelled “The blame” inching towards the desk in the Oval Office. “Is that thing getting closer?” asks Mr Obama.

Liberal satirists feel they ought to goad the powerful, but it no longer comes naturally now that George Bush has buzzed back to Texas. Sometimes they mock Mr Obama for not quite living up to their colossal expectations. Jon Stewart, a satirical television pundit, ribs the new president for failing to distinguish himself from Mr Bush as quickly and completely as Mr Stewart would like him to. For example, Mr Obama has not yet stopped the armed forces from discharging soldiers—including Arabic-speakers—for being gay. So it was OK to waterboard a terrorist over 80 times, fumed Mr Stewart, but not OK that the soldier who could actually understand him should have a boyfriend.

Black Man gets Worst Job

The writers of the *Onion* are unencumbered by any obvious party loyalty. To fit in, you have to hate everything around you, muses Joe Randazzo, the editor. Hence the headline that greeted Mr Obama’s election victory: “Black Man Given Nation’s Worst Job”. The Onion News Network, an online video venture, did a segment entitled “Obama Win Causes Obsessive Supporters to Realise How Empty Their Lives Are”. The camera showed pitiful young campaign volunteers lying comatose on a couch or wandering aimlessly through a park. “Who will take care of these people?” asked the anchor. “We really don’t know. Many have already driven away their friends and family with months of endless praise for Obama’s latest speech and constant reminders to vote,” said the breathless correspondent on the scene. “That does sound annoying,” said the anchor.

The *Onion* lampooned previous presidents, of course. No prizes for guessing who inspired the headline “New President Feels Nation’s Pain, Breasts”, or who regaled dinner guests with an impromptu oration on Virgil’s minor works. What sets the *Onion* apart, however, is that Mr Obama has not blunted its barbs at all. On the contrary, the way more serious journalists fawn over the new president offers an irresistible target. “Media Having Trouble Finding Right Angle on Obama’s Double Homicide”, the *Onion* reported last month. “‘I know there’s a story in there somewhere’,” said the editor of *Newsweek*, after Mr Obama brutally murdered a suburban couple. The *Onion* is better at spotting good yarns, which is why, despite the recession, it is prospering. The main threats it faces are that its staff might grow up—or that the earnest papers it parodies may go out of business.

Crime and politics in Guatemala

An indictment from the grave

May 21st 2009 | GUATEMALA CITY
From The Economist print edition

A murder foretold has convulsed Guatemala's government. Its investigation will provide a test of whether or not Central America includes a failed state

AFP

RODRIGO ROSENBERG was not the best-known, richest, or most powerful victim of the endemic violence that dogs Guatemala. His murder on May 10th—he was shot by an unknown gunman while bicycling on a busy avenue—was not even unusually brazen by the country's grim standards. But Mr Rosenberg, a Harvard-educated lawyer, did something to distinguish himself from the other 6,000 people killed in Guatemala in the past 12 months. Four days before his death, he recorded an 18-minute video in which he began by saying: "If you are watching this message it is because I have been murdered by President Álvaro Colom" with the help of Gustavo Alejos, his chief of staff, and Gregorio Valdez, a businessman, and the approval of Mr Colom's wife, Sandra Torres. With that he plunged Guatemala into its most serious political convulsion since the end of a 36-year civil war in 1996. He also highlighted the continuing lawlessness of a country that comes as close as any in the Americas (Haiti apart) to a failed state.

According to Mr Rosenberg's posthumously publicised testimony, Mr Colom's government offered a seat on the board of Banrural, a partly state-owned development bank, to one of the dead lawyer's clients, Khalil Musa, a farmer and textile manufacturer. The proposal was then withdrawn, Mr Rosenberg claimed, out of fear that Mr Musa would reveal rampant corruption at the bank. It was to keep this episode quiet that Mr Musa and his daughter were murdered last month, according to Mr Rosenberg, who feared that for the same reason he would be next.

No independent evidence has emerged to corroborate these accusations. But for many, mainly middle-class Guatemalans, the case casts doubt on the credentials of Mr Colom, a businessman of the centre-left elected as president in 2007, as a crusader for good government and justice.

Guatemala desperately needs both those things. The state is weak, even by Latin American standards. Tax revenues total just 11% of GDP, depriving governments of the wherewithal to provide such basic public services as security, health care and schooling. The war between left-wing guerrillas and (until 1986) a string of military dictators claimed some 200,000 lives and flooded the country with guns. When

peace came, drug-trafficking syndicates were springing up across Central America to transport Colombian cocaine to the United States. Many former combatants drifted into crime. The murder rate (of nearly 50 per 100,000 people) is higher than its average during the war. Police and courts are understaffed, underpaid and susceptible to bribes and threats. According to the United Nations, just 2% of crimes in the country are solved.

Crime and corruption have contaminated politics. Political office confers immunity from prosecution. Drug money helps to finance campaigns. “You have to join up with the mafias to be a successful politician in Guatemala,” says Nineth Montenegro, a human-rights campaigner and congresswoman. Those who resist often pay with their lives: 56 politicians or party activists were killed during the 2007 presidential campaign.

Mr Colom has taken some measures to tackle the crime wave. To the dismay of some of his left-wing allies, he has given a bigger role in fighting crime to the army, which killed thousands of civilians during the war. He has set up a new intelligence service. Arrests and weapons’ seizures have gone up this year.

But Mr Rosenberg’s allegations have raised worries as to whether Mr Colom’s government is any cleaner than its predecessors. Critics object that Ms Torres, who has no cabinet role or political office, is managing the government’s welfare programmes. She has refused to turn over a list of the identity cards of beneficiaries to auditors and legislators.

Mr Colom, his wife and the others named by Mr Rosenberg have all angrily denied his claims. After at first questioning the video’s authenticity, Mr Colom then suggested that it was part of a right-wing plot to destabilise his government. (The journalist who recorded the video, Mario David García, is a conservative commentator who in the 1980s expressed sympathy for an attempted coup.)

The first couple have tried to turn the case into a political battle along class lines. They ordered mayors to mobilise supporters for a large pro-government demonstration outside the presidential palace in Guatemala City on May 17th. Although this was organised with public money, it was outnumbered by a rival protest demanding justice in the Rosenberg case. “They’re well-groomed, with new shirts and shiny shoes, when there are more than a million malnourished children nobody worries about,” Ms Torres said of the protesters. She seems to model herself on Eva Perón, Argentina’s populist heroine; some think she wants to succeed her husband as president, following the example of Argentina’s Cristina Fernández de Kirchner.

The investigation of Mr Rosenberg’s murder will determine the Coloms’ political future. The president raised suspicions when he held a meeting with the supposedly independent attorney-general the day after the video was released. But he then asked the UN and the United States’ FBI to join the investigation. In 2007, with the previous government’s support, the UN set up a special commission charged with combating legal impunity in Guatemala. It now has its most important case. Whether or not Mr Rosenberg’s killers are brought to justice will show whether or not Guatemala is indeed a failed state.

Brazil's supreme court

When less is more

May 21st 2009 | BRASÍLIA
From The Economist print edition

Reforms improve the judicial system

Reuters


Barbosa, judicial activist

HOUSED in a modernist palace in Brasília, Brazil's Supreme Federal Tribunal has long been something of a joke. It is the most overburdened court in the world, thanks to a plethora of rights and privileges entrenched in the country's 1988 constitution. These include an almost limitless right to appeal against any court ruling until the case reaches the 11 wise men and women in the supreme court. Every justice writes his own opinion in a case, and till recently the tribunal's decisions did not bind lower courts. The result was a court that is overstretched to the point of mutiny. The supreme court received 100,781 cases last year. Last month one of its members accused the court's president, Gilmar Mendes, of destroying justice, in a televised session (which promptly ended).

Joaquim Barbosa, who made the accusation, seems to have been in tune with public opinion. In a poll conducted by the Fundação Getúlio Vargas, a research institute, in February 69% of respondents said that judges in Brazil lack impartiality. Justice is also appallingly slow, particularly in São Paulo state, which accounts for some 45% of the cases in the country, according to Maria Thereza Sadek of the University of São Paulo. This encourages time-wasting lawsuits as a ploy to stave off penalties from broken contracts or other infringements. Brazil has more lawsuits per person than any Latin American country except Costa Rica, says Ms Sadek.

Mr Mendes has in fact made some improvements to an institution that in the past has sometimes seemed to care more about its pension entitlements than about dispensing wisdom. In particular, he has taken advantage of reforms to the justice system made by President Luiz Inácio Lula da Silva's government in 2004 to get things moving a bit faster.

One of these reforms allowed the court to create binding precedents that must be followed by lower courts in similar cases. To be heard by the tribunal a case must now have "general repercussion in society". If this test is not met then the judgment of a lower court is accepted as final Together these measures have cut the number of cases distributed to the tribunal's members between April last year and March this year to a mere 56,500, compared with 97,400 in the same period of the previous year.

A second innovation was the creation in 2004 of a body to keep an eye on the judges. The National Council of Justice has proved to have teeth, travelling around the country and investigating malpractice. It has detected a lot of this in the country's poor north-east: it recently found a judge in Alagoas guilty of a fraud worth more than 63,000 reais ($26,000) against Electrobrás, a state-controlled energy company.

If these trends are reinforced, Brazil's supreme court will start to resemble similar courts elsewhere. Behind the recent public row between the two supreme-court justices was an argument about judicial philosophy, says Joaquim Falcão, a professor of constitutional law at the Fundação Getúlio Vargas. Mr Barbosa boasted that he considered the consequences of his decisions. Mr Mendes accused him of ruling differently depending on the social status of those involved in a case. Translated into different language, this was an argument between judicial activism and a more conservative view of a judge's role. This is a cut above the usual debate in and about the supreme court and sounds like progress. But there is still some way to go, and a lot of cases to be culled.

Tax and the Cayman Islands

Grey skies in the Caribbean

May 21st 2009
From The Economist print edition

The taxmen circle the white beaches

THE seas round the Cayman Islands may be blue, the sands white and the coral reefs a rainbow, but to the OECD, an economic group of rich countries, the Cayman Islands are grey. On May 14th the OECD ruled to keep the British colony on its list of unco-operative tax havens.

That has miffed the Cayman Islanders. In April the OECD gave a clean "white" grade to rivals such as Jersey, Guernsey and Barbados. These lists rank a financial centre's willingness to share information about offshore bank accounts with tax authorities around the world. To get on the white list, a dozen or so tax-information exchange treaties are needed. Barbados has 19. Until recently the Caymans had just one, with the United States. On April 1st it signed agreements with five Nordic countries. It now reports income from savings accounts to European Union countries. It has offered to share tax information with 12 other countries.

The OECD is not the only group pressing for more openness. Barack Obama's budget proposes to close loopholes which allow American companies to use offshore centres to avoid taxes. A Stop Tax Haven Abuse bill in the American Congress would assume that Americans who set up companies in tax havens are their owners and levy penalties on financial institutions that block tax enforcement.

The bill's sponsors are disdainful of the tax treaties favoured by the OECD, which work only when the supplicant tax authority can name a particular taxpayer and bank. Under their measure, which in an earlier version in the last Congress was sponsored by Mr Obama, companies that are registered offshore but do most of their business in America would be taxed there. Mr Obama has pointed to Ugland House, the Cayman Islands' office of a law firm, Maples and Calder, which last year was the legally registered address of 18,857 companies and other bodies, almost half of which had an American billing address.

Anthony Travers, a former managing partner of Maples and Calder who chairs the Cayman Islands Financial Services Association, argues that this bill would damage the American economy, by tempting hedge funds to move their managers from Connecticut to the Caymans, for example. Better, he says, would be a "proactive" treaty, with the American authorities automatically notified of their taxpayers' offshore accounts.

Over the past half-century offshore finance, along with tourism, has lifted the Cayman Islanders from poverty to prosperity. Both have been hurt by world recession. The islands' new government, elected on May 20th, has its work cut out.

Ecuador, Chevron and pollution

Justice or extortion?

May 21st 2009 | LAGO AGRIO
From The Economist print edition

The hounding of an American oil company

Reuters

The gunk that unleashed the dogs of law

HIDDEN behind a row of trees and a rusted barbed-wire fence on a rutted dirt road in the Ecuadorean jungle, Shushufindi 61, a pit in which oil waste is dumped, is hardly a beauty spot. But it has attracted a string of visitors ranging from Hollywood actresses to Ecuador's president, Rafael Correa, and managers from Chevron, an American oil company. It is one of several hundred such pits that are at the centre of a long-running legal wrangle between Ecuadorean and American activists and Chevron. For the activists, the case shows that oil companies are nowadays held accountable for their actions in developing countries. For Chevron's supporters, the case amounts to an attempt at judicial extortion that throws doubt on whether multinational oil companies can ever get a fair deal in parts of Latin America today.

At issue is waste dumped by Texaco (bought by Chevron in 2001) as long ago as the 1960s in the region around Lago Agrio in the Ecuadorean jungle. From 1977 onwards, Ecuador's state-owned oil company (now called Petroecuador) took a 62.5% stake in the field, though Texaco continued to operate it. In 1992 Petroecuador took over the whole operation and Texaco withdrew from Ecuador.

In a suit first filed in a New York court in 1993, lawyers representing 30,000 people in the Lago Agrio area argued that billons of gallons of waste dumped by Texaco in several hundred pits such as Shushufindi 61 caused damage to human health as well as to the jungle. They also argued that the oil company should compensate Indian people for their forced displacement. American judges ruled three times that they had no jurisdiction over the matter.

But as a result of the publicity generated by the cases, Texaco agreed with the Ecuadorean government that it would clean up 161 pits, or its share of the total, at a cost of $40m. The work was done by 1998 and the government signed an agreement releasing Texaco from any further liability. Petroecuador was supposed to clean up the rest of the pits, but didn't do so, partly because it continues to use some of them (including Shushufindi 61).

Meanwhile Ecuador enacted an environmental law, something it had previously lacked. This is not retroactive. Nevertheless the plaintiffs filed a claim against Chevron under this law in 2003 in a court in Lago Agrio. They sought $6 billion in damages. Last year a court-appointed expert, Ricardo Cabrera, filed a 4,000-page report arguing that Chevron was liable for no less than $27.3 billion in damages. Of this $9.5 billion is compensation for 1,400 deaths from cancers that he alleges were caused by the pollution; $8.4 billion is for "unjust enrichment"; the remainder is for environmental clean-up.

Chevron has filed a 9,000-page rebuttal of Mr Cabrera's report. It disputes his fitness as an expert, arguing that he has little experience of the oil industry. It found evidence that he used the Amazon Defence Front, a group working for the plaintiffs, to collect soil samples from sites. Sections of his report repeat verbatim documents filed by the plaintiffs. Chevron also notes that in 2007 a California court dismissed as fabricated some individual claims that the pollution caused cancers; it fined one of the plaintiffs' lawyers for this. As for "unjust enrichment", a Chevron manager points out that Texaco's total profits from its operations in Ecuador were only $497m, while over the 20 years to 1992 Ecuadorean governments received $25.3 billion in profits, taxes and royalties from the field.

The judge in Lago Agrio, Juan Nuñez, is expected to rule on the case later this year. He has made no secret of his sympathy for the plaintiffs. The lawsuit appears to have the backing of Mr Correa's government. Last year it objected to the 1998 agreement with Texaco, arguing that since the company was the operator of the field it should have cleaned up all of the pits. The attorney-general charged seven former senior officials who had signed the agreement with fraud, as well as two Ecuadorean lawyers for Chevron.

Chevron has filed a claim in an international arbitration court in The Hague and has asked the American government to review Ecuador's trade preferences. But it faces political pressure in the United States as well as in Ecuador. On May 4th Andrew Cuomo, New York's attorney-general, sent a letter to Chevron requesting information on the case on behalf of the state's pension funds, which have more than $1 billion invested in the company.

If the Ecuadorean courts rule against Chevron, the plaintiffs' lawyers can be expected to file suit in the United States to collect the settlement. Since they are working on a contingency basis, they stand to gain a substantial portion of any damages.

Texaco may have benefited from Ecuador's past lack of environmental standards. It is questionable whether any of the pits would have been cleaned up had it not been for the campaigners. But the lawsuit may now be preventing Chevron from helping Petroecuador to clean up the rest. Ecuadoreans were the main beneficiaries from the oil—although some of them suffered some damage from it. They will also be the most important victims if the Chevron case shows that the rule of law is the servant of politics in Ecuador.

The end of Sri Lanka's war

The corpse of the Tigers

May 21st 2009 | COLOMBO
From The Economist print edition

Mixed feelings as the government celebrates a most bloody victory

AFP

WHEN Sri Lanka's president, Mahinda Rajapaksa, declared victory over the ruthless Liberation Tigers of Tamil Eelam (LTTE) in a speech to parliament on May 19th, he should have addressed a full house. In fact, over 20 opposition chairs in the 225-seat chamber were frostily vacant. Keeping away were members of the Tamil National Alliance, the largest group of parties representing the Tamil minority, elected in the north and east of the island. It was a reminder to a triumphant government of an unhappy truth: the Tigers may be dead, but the bitter ethnic divisions that fuelled the 26-year war live on.

Some hours later only a few bursts of firecrackers were heard in Colombo when state television aired footage of the dead Tiger supremo, Velupillai Prabhakaran. There had already been two days of noisy celebration at the end of one of Asia's longest wars. Firecrackers were sold out; national flags, with their dominant lion insignia representing the Sinhalese ethnic majority, had doubled in price.

Prabhakaran was shown with a single shot to the forehead, a cloth covering the top of his skull, which appeared to have been blown off. Blood seeped from the yawning wound into the muddy ground he lay in. A soldier turned his head from side to side for the camera. In death as in life (see our obituary), the man many had thought invincible wore an impenetrable stare. LTTE 0:01, read his dog-tag; blood group, B-negative.

The army reportedly located his body beside a lagoon a day after the state media had first announced his death. In the absence of photographic evidence, Sri Lankans had begun to dread that he had escaped. Then, on the afternoon of May 19th, after the president's speech, the army chief, General Sarath Fonseka, revealed that the corpse had been found.

This soon raised questions about the circumstances of his death. Some speculated he was shot by an infantryman who had stumbled upon him during mop-up operations. Others claimed he was killed after being tricked into turning himself in. The International Committee of the Red Cross (ICRC) reported that the LTTE had offered to surrender to the government through them and that this offer had been suitably

conveyed.

The government heightened the confusion by insisting that Prabhakaran had died in battle the previous day, a claim belied by the evidently fresh state of his corpse. All other senior Tiger leaders, including Sivershankar Pottu Amman, who led intelligence, and Thillaiyampalam Sivanesan, alias Soosai, who commanded the naval unit, were reported killed, as was Prabhakaran's oldest son, Charles Anthony, who had run the nascent air wing.

For Rajan Hoole, a prominent Tamil human-rights activist, how the fighters died is less important than the government's plans, if any, for post-war reconciliation. The war, he argues, has left the minorities feeling less Sri Lankan. So if the government does not act wisely, Tiger leaders might come to be seen as martyrs to the cause of a separate homeland. Sulochana Ramaiah, a Tamil journalist, hopes the end of the war heralds a new era of prosperity. But she worries that Tamils might have to live in fear under a pro-Sinhalese government that is now cockier than ever.

In a more understated speech than had been expected, President Rajapaksa attempted to allay some of these concerns by drawing a clear distinction between the Tigers and the Tamil people. He promised equal rights for all. But any response to the long-standing grievances of the Tamil minority must be home-grown, he stressed. Sri Lanka had no time to try out solutions put forward by other countries—an implicit dig at Indian attempts at intervention.

Much of the world has been sickened by the cost in human life paid for the government's victory. Thousands of civilians have been killed or severely wounded in furious crossfire. The government blames the Tigers for civilian casualties. There is indeed evidence that they shot civilians when they tried to escape. But it seems likely, as UN officials and others have suggested, that many, or most, perished in heavy artillery- and mortar-fire from the army. Feverish last-minute attempts by Western nations to bring about a humanitarian pause were rejected by Mr Rajapaksa. He said it would serve no purpose when the rebels were clearly holding civilians as human shields.

European Union foreign ministries have already urged an independent inquiry into alleged war-crimes by both the LTTE and the government. At a meeting in Brussels, they said they were appalled by the high number of civilian casualties in the fighting. Separately, David Miliband, Britain's foreign secretary, noted on May 19th that, though exact numbers may never be known, thousands of civilians have died. More than 250,000 have been displaced by the fighting and interned by the government in camps, to which the access of the international humanitarian agencies is still restricted.

The ICRC has been excluded from the area of north-eastern Sri Lanka hardest hit by fighting in recent weeks. So it has been unable to obtain first-hand information about the needs of civilians and wounded people, including those needing urgent medical care. Many of those crammed into internment camps require humanitarian assistance that the government is not financially equipped to provide. The territorial conflict may be over but a humanitarian disaster is still unfolding.

Myanmar's beleaguered opposition

The isolation ward

May 21st 2009 | YANGON
From The Economist print edition

The junta's latest outrage and the debate over the West's failed Myanmar policies

APPEARING in a court in prison in Yangon this week Aung San Suu Kyi, Myanmar's opposition leader, appeared "composed, upright and crackling with energy", according to Mark Canning, Britain's ambassador. He was one of a handful of diplomats and journalists afforded a glimpse of proceedings. After spending most of the past two decades in more or less restrictive forms of detention, and recently in poor health, her composure is remarkable; all the more so given the almost laughable nature of the charges against her. She is accused of having broken the terms of her house arrest by offering hospitality to John Yettaw, an American who swam uninvited to her house across the adjacent lake, helped by plastic containers as floats and homemade wooden flippers.

The backdrop to this farce is an election expected early next year. It always seemed impossible that the junta would free Miss Suu Kyi before then. Mr Yettaw's hapless intrusion simply provides them with the flimsiest of pretexts not to. She still retains the popularity which gave her a sweeping victory in the country's election in 1990, a result the generals ignored. In preparation for the new poll, dissent has been quashed even more ruthlessly than usual. The number of political prisoners has doubled since 2007 to around 2,100.

There are many other reasons to dismiss next year's election as a sham. Last year a referendum on a new constitution recorded a 92% "yes" vote amid rampant manipulation. The "no" campaign was banned. The constitution, scheduled to take effect after the election, ensures the army's continued dominance of politics, with a quarter of parliament reserved for it, a ban on dissent and sweeping emergency powers for the chief of the army.

The process has almost nothing to do with democracy, yet many diplomats and observers regard it as the greatest political change for a generation. After four decades of absolute military rule, three-quarters of parliament and members of the new government itself will be civilians, or at least retired soldiers. It appears that some powers will be devolved to the provinces. The junta is undergoing a generational shift. Several generals, including the junta's leader, Senior General Than Shwe, are nearing retirement. This seems to be their bid for a peaceful old age. Sceptical as they are about the hopes for progress, for many Burmese any change is better than none.

EPA

Not much left of the opposition

Miss Suu Kyi's National League for Democracy (NLD) has not ruled out contesting the election and some survivors of a mass uprising against the army in 1988 may stand. Optimists dream that the opposition might establish a foothold in parliament, or that a business-minded, civilian, political class might slowly emerge. More important than the stance of the NLD, almost obliterated by the junta, will be that of the myriad insurgent outfits representing Myanmar's non-Burmese ethnic groups. They are mostly observing ceasefires in the country's 60-year civil war, but are still undecided about the election.

Nor has the outside world decided how to view the process. In February Hillary Clinton, America's secretary of state, started a debate on Western policy when she said that neither sanctions nor engagement had worked. That debate may now be hijacked by the latest outrages.

For decades after seizing power the generals clung to it by isolating the country themselves. After the massacres that ended the 1988 revolt, America and Europe began imposing sanctions, which both recently renewed. Meanwhile, the Burmese economy is suffering from years of mismanagement, sanctions

and the impact of the global financial crisis on remittances and commodity exports. Inflation is running at around 30% a year. Millions face desperate hardship.

Yet Myanmar's rich resources of natural gas and other commodities, and the strategic access it offers western China to the Indian Ocean, mean that the country has no shortage of Asian trading partners. The regime attempted to open up to global investment in the mid-1990s, but many Western companies were quickly deterred again by divestment campaigns run by exiles and Western activists. Humanitarian aid has also been strictly limited, so that Myanmar receives $2.80 of annual aid per head compared with $55 for Sudan. Some senior foreign officials in Yangon argue for the return of the World Bank and the IMF, which left after 1988. With even a limited mandate they could help professionalise the utterly inept bureaucracy. Without that, any kind of reform process or political transition is probably impossible.

According to this view the top generals are wicked, but not everyone inside the system is. And given the state of Myanmar's economy, the choice may be between working with the government and not working with anyone. Those arguing for more engagement believe Myanmar's best hope is gradual change, assisted by exposure to Western influence. The junta has smashed its enemies so thoroughly that the only alternative, short of violent upheaval, might be no change at all.

Indonesia's presidential candidates

Sitting pretty

May 21st 2009 | JAKARTA
From The Economist print edition

The president looks like a shoo-in

AP

THE competing teams for Indonesia's presidential election on July 8th have now been settled. At first glance voters seem to face a hard choice. Susilo Bambang Yudhoyono, the incumbent president, is up against both his predecessor, Megawati Sukarnoputri, and his deputy, Jusuf Kalla. All are secular politicians who have eschewed the chance to broaden their appeal by picking a vice-presidential running-mate from an Islamic party.

Mr Yudhoyono, a former general, has selected Boediono, the respected governor of the central bank, who has resigned to run for the office (which requires a medical: he is the man on the right in the photo). Ms Megawati has teamed up with Prabowo Subianto, another ex-general, one-time son-in-law of Suharto, the late dictator, polo-player and populist. Mr Kalla's running-mate is Wiranto, yet another Suharto-era general.

On closer inspection, however, it looks like a one-horse race. Ms Megawati has failed to use her five years in opposition to re-establish herself as a potent political force after Mr Yudhoyono soundly beat her in 2004. Her approval rating in one recent opinion poll was only 15%. And, judging from the protracted negotiations required to seal her partnership with Mr Prabowo, their alliance is far from solid.

Mr Kalla can justifiably claim to be a man of action, with a record of achievement in office, particularly on economic issues, and as a peacemaker who helped broker the end to a separatist conflict in the province of Aceh in 2005. But his approval rating is only 2%. Moreover, Golkar, his party, is deeply divided. Many party bigwigs seem busier plotting Mr Kalla's removal as chairman than backing his presidential bid. And Mr Wiranto, the object of an international arrest warrant for his role in the violence in East Timor in 1999, could be as much of a liability as an asset.

Mr Yudhoyono, in contrast, is riding high. His approval rating is about 70% and he is having a good financial crisis. In selecting the apolitical Mr Boediono he sent a clear message to the Islamic parties and the nation as a whole that, with his Democratic Party now the biggest in parliament, he intends to call the shots. The party has only 26% of the seats, so he will need others' backing. But this year, unlike 2004 when it won just 8% of the seats, the coalition will be built on his terms.

Many analysts are now debating not whether Mr Yudhoyono will win, but only whether he will do so in the first round or require a run-off in September. According to the present polls, one round should suffice and complacency could be his biggest threat. The financial markets are already assuming he is going to win. Surprises cannot be ruled out. Before April's parliamentary election, for example, hardly anyone predicted the presidential contest would turn out like this. But with seven weeks to go the presidency is increasingly looking like Mr Yudhoyono's to lose.

Economist.com WORLD ASIA

North Korea v South Korea

A merry dance

May 21st 2009
From The Economist print edition

Ever more isolated, North Korea's Kim Jong Il still calls the tune

Illustration by Claudio Munoz

PRICKLY and isolated, North Korea has few enough connections to the outside world. So why keep snapping them, one by one? On May 15th, it announced that it was unilaterally tearing up wage and other agreements governing the Kaesong industrial zone, a joint North-South business project just inside North Korea. South Koreans, it says, can either lump it or leave. The 100 or so South Korean firms that employ 38,000 North Koreans and generate millions of dollars a year for the cash-strapped regime of Kim Jong Il are making contingency plans to bring their people home.

This row joins a veritable conga of others, and not just with South Korea. Mr Kim has told the United Nations Security Council to say sorry for a mild wrist-slapping it gave him after he defied an earlier council injunction and in April (with only partial success) tested a long-range rocket. And the regime now says it will "never" return to six-party talks that have sought to end its suspect nuclear programmes in return for more aid, trade and better relations with America, South Korea, Japan, China and Russia.

Instead Mr Kim is building a new long-range missile testing pad. Ominously, there is new activity, too, at a site used in 2006 for a nuclear test. The other five parties to the nuclear talks, under the guise of showing patience, seem at a loss as to what to do.

Mr Kim is a past master at extorting aid using threats. He is clearly not unclenching his fist to grasp the hand extended by Barack Obama earlier this year. Yet Mr Kim's fit of belligerence may be aimed less at testing America's new president than at showing "strength" to shore up his regime, argues Mark Fitzpatrick of the London-based International Institute for Strategic Studies. One reason perhaps is that South Korea's president, Lee Myung-bak, has taken a firmer line than his predecessor, expecting reciprocity—such as more family reunions between the Koreas—if more than just humanitarian food aid is to flow northward. Another possible reason is that Mr Kim's own ill-health seems to have led to jockeying for position among his three sons and their supporters.

North Korean officials nowadays make little secret of their wish to be recognised as a nuclear-weapons power. They want America to treat with them, they say privately, just as it does with nuclear-capable India which, though it has kept its bombs and ignored global anti-nuclear rules, last year won exemption from nuclear-trade restrictions with help from America's outgoing Bush administration. Another negotiating ploy? Or Mr Kim now determined to strut his stuff regardless?

Taiwan's opposition

Street life

May 21st 2009 | TAIPEI
From The Economist print edition

The opposition barks for want of bite

Reuters

It's all right Ma, if you can't please them

EVER since Ma Ying-jeou, Taiwan's president, took office a year ago, the opposition Democratic Progressive Party (DPP), which supports formal independence from China, has harangued his China-friendly policies. On May 17th party supporters vented their anger on the streets. Demonstrators waved green flags calling Mr Ma a traitor, as they flooded the square in front of the presidential office in Taipei. The DPP claimed 600,000 took part, though the police estimated a mere 76,000. Another rally swamped Kaohsiung in the south. Later that night thousands joined a 24-hour sit-in in Taipei.

Street protests are about all the DPP can do. Mr Ma and his Nationalist Party, the Kuomintang (KMT), have hugely eased the tensions with the mainland that marked the presidency of the DPP's Chen Shui-bian from 2000 to 2008, signing a series of agreements liberalising commercial ties. The DPP is out in the cold. It won 42% of the vote in parliamentary elections last year but holds only 27 of the 112 seats in the legislature, compared with 80 for the KMT. The DPP complains that the government is ignoring parliamentary scrutiny, negotiating with China in secret, and that Taiwan's democracy is deteriorating. Another target of the rallies was proposed new legislation to give the police greater powers to control demonstrations.

Joseph Wu, a moderate and the former DPP government's representative in America, says that if the KMT cannot find a way of co-operating with the DPP the party is bound to become more radical. Already hardliners and moderates are starting to unite in calling for the immediate release of Mr Chen, who has been in prison for six months for alleged corruption, without yet being found guilty, and who this month has faced new charges. DPP moderates used to distance themselves from Mr Chen's corrupt image.

In a fiery speech to the crowd at the end of the sit-in in Taipei, Tsai Ing-wen, the DPP's chairwoman, said the party's next move would be to organise a referendum on Mr Ma's vague plan for a free-trade agreement with China. Mr Ma insists this will help Taiwan weather the impact of China's free-trade agreements with South-East Asian countries, which take effect next year. But the DPP fears political concessions will be made.

The turnout at the rallies has shown that the DPP and its allies are still a force to be reckoned with. But street protests may alienate middle-of-the-road voters and business. Polls show that, though the KMT's popularity has dwindled with the financial crisis, the DPP has not benefited.

Mr Ma's China policies, moreover, have popular aspects. The stockmarket has been doing well, buoyed by the agreements with China. And on May 18th, for the first time in 38 years, Taiwan's health minister took a seat as an observer in the World Health Assembly in Geneva. At a press conference this week, Mr Ma insisted that none of the nine agreements his government has reached with China compromised Taiwan's sovereignty, and that there will be no turning back.

China's state broadcaster under fire

The pathetic fallacy

May 21st 2009 | BEIJING
From The Economist print edition

All trousers and no mouth

ITS charred hulk looms over Beijing's central business district, a monument to recklessness. The building is part of a colossal, architecturally extravagant complex being built for the state broadcaster, China Central Television (CCTV). A fire gutted it three months ago, creating an embarrassing eyesore, for which a senior head has now rolled.

Conspicuous though the tattered grey shell of the Television Cultural Centre is, officials have been trying hard to keep discussion of the disaster out of the official media. So the announcement on May 17th of the replacement of the broadcaster's director, Zhao Huayong, described it as a "normal retirement". Not so, say Chinese journalists. At 61, Mr Zhao is certainly old enough to retire. But before CCTV employees started the blaze on February 9th, by setting off fireworks around the unfinished building, he had been expected to serve a few more months and be given a senior honorific post after leaving. Obscurity is now probably the best he can hope for.

The Television Cultural Centre had been due to open this month, providing hotel accommodation and studio facilities. Chinese media have said that plans are still on track for the opening later this year of the complex's centrepiece, a structure mocked by locals as the "big trousers" because of its twisted shape (designed, like its burned-out neighbour, by a Dutch architect, Rem Koolhaas).

Officials had hoped the new buildings would be ready for the celebrations to mark communist China's 60th birthday on October 1st. But even if the trousers are ready, there is no word on what will happen to the ashen remains of a structure known by locals, because of its shape and location, as the "little phallus".

The government's silence on the topic reflects its enormous discomfort. The project has been beset by public criticism: of the complex's cost and architectural oddity; of the carelessness that caused the fire (more than a dozen people have been arrested); and of CCTV itself. The broadcaster is widely accused of abusing its monopoly over national television by offering second-rate programmes and shoddy news coverage, or, in the case of the fire in February, next to none. In Chinese slang, the acronym for CCTV has become an oft-used pejorative. *Caijing*, a weekly news magazine, reported in March that the project was projected to cost 12 billion yuan ($1.8 billion), well over the 7.7 billion budgeted in 2001.

These figures, the magazine said, did not include another 7 billion yuan in "equipment costs". But CCTV does not seem strapped for cash. It is launching new services for Arabic- and Russian-speaking countries this year, part of a push to become what it calls a world-class media group of "splendour and influence" equal to its American and European counterparts. The *Schadenfreude* in China's blogosphere over the disaster in February suggests lukewarm support for CCTV's ambitions among the audience at home.

Banyan

May the good China preserve us

May 21st 2009
From The Economist print edition

China is enjoying its new prestige as a global economic helmsman, but it still has problems at home

Illustration by M. Morgenstern

THE sense that someone else’s loss is your gain, leading even to rejoicing at their disaster—*xing zai le huo*—is as hard-wired into the Chinese psyche as anywhere. Honed by American policymakers’ past fondness for hectoring China about the need for better risk-management and exchange-rate flexibility, this emotion has come to the fore since the United States was overtaken by financial calamity. China’s leaders are at pains to show their increasing sophistication, so public dancing around the corpse of the American financier is frowned upon. But many Chinese think their country is having a rather good crisis.

The realisation first reached a wider Chinese audience in early April, at the time of the G20 summit in London. There, President Hu Jintao was seated in the front row of the official photograph, next to Britain’s prime minister, Gordon Brown. Among the country’s elites, triumphalism found its clearest expression later in April at an ebullient Bo’ao forum, China’s annual answer to Davos. There, one high official dismissed the G20, dominated by Western powers, as all hat and no cattle. Talk of a “new world order” was in the air, with China at its heart.

So much for Deng Xiaoping’s dictum that China should keep a low profile and “never take the lead”. The international financial crisis has become a kind of induction ceremony for China as a world power, which will go through another ritual when Timothy Geithner, America’s treasury secretary, pays tribute in Beijing next month. Zbigniew Brzezinski, ex-President Jimmy Carter’s national security adviser, has proposed a new “G2”, where America and China get together to tackle the financial crisis, climate change and more. China has plenty of reasons not to want such a condominium, but is chuffed that Americans are talking about it. Nor does it mind if others believe it is happening anyway. Late last year China pulled out of its annual summit with the European Union because France’s president, Nicolas Sarkozy, was to meet the Dalai Lama. It agreed to renew high-level relations with the EU only after France grovelled. So this week China’s prime minister, Wen Jiabao, travelled to Prague for a reconvened EU summit, with an agenda gutted of anything that might embarrass China. Just before it, David Miliband, Britain’s foreign secretary, spoke to the *Guardian*, a British daily, with something of the fervour of a miracle-watcher. China was an “indispensable power”. At the G20 in April, “what was striking was that when China spoke, everybody listened.” And he quoted a joke: “After 1989 capitalism saved China. After 2009 China saved capitalism.”

China has been doing its bit to act the part. It has blessed the IMF with a promise of $40 billion of its

money. It has been signing up “swap” agreements with central banks from Indonesia’s to Argentina’s giving them access to billions of dollars-worth of Chinese yuan in a crisis. It has encouraged experiments with an inchoate offshore market in yuan in Hong Kong. And its central-bank governor has talked loftily of the need to replace the dollar as the world’s reserve currency with something like the IMF’s Special Drawing Rights (SDRs).

So far, however, all this smacks of political posturing. Since most Chinese exporters invoice in dollars it is hard to see who would want all those yuan anyway. China seems in no hurry to move towards full convertibility of the yuan and greater exchange-rate flexibility. And the talk of ditching the dollar comes oddly from a country that has done little to diversify its own massive holdings of foreign exchange. Raising the issue when it did seemed more designed to make a splash and change the subject at the G20 away from anything that might embarrass China.

In public, most Chinese leaders scoff at the idea that their own policies might have contributed to the crisis. They blame over-indebted American consumers going on an unsustainable binge, leading to a gaping American trade deficit. Yet the counterpart is an unsustainable Chinese export drive, to America above all, that was built on a cheap currency. The dollars earned from the drive went flooding back to America, pushing down interest rates there, raising house prices and encouraging Americans to borrow even more to buy Chinese stuff. As Nicholas Lardy, an American economist specialising in China, has put it, the two countries were as co-dependent as a dope-dealer and an addict.

Restoking the old fires

Now, with the American consumer laid up indefinitely, the world has turned to China to take up the slack. A country with so many factories geared to exports has its own reasons for wanting to boost domestic demand. So the government acted swiftly late last year to unveil a $586 billion spending package. A notable economist says it sets the fiscal-stimulus “gold standard”.

It does, however, bring some problems. For one thing, some of the money is being spent subsidising Chinese exports. This worsens the overproduction at the heart of the crisis. And much of the rest is going on state-driven projects, reinforcing the state’s rent-seeking or megalomaniac proclivities. By contrast, household demand is not getting any real long-term boost, despite a few notable initiatives, including better health care. Indeed, demand is depressed precisely because household savings are being funnelled by the state banks, paying measly rates of return on deposits, to big companies. Loans to small businesses have actually fallen.

If domestic demand is to grow, then finance has to be liberalised to allow savers to earn an honest return and deserving companies to get finance. But this would be to challenge the state’s chief powers, which is why it will happen only slowly, if at all. In the short run, the government may either tolerate the speculative fires the stimulus is igniting, or douse them by tightening credit. Either way, China’s leaders will be too busy saving China to bother about running the world.

Economist.com/blogs/banyan

Jihadists attack Somalia

Al-Qaeda on the march

May 21st 2009 | NAIROBI
From The Economist print edition

Barely supported by the West, Somalia's new government may buckle under the latest wave of jihadist assaults

AFP

WHEN Osama bin Laden issued a rambling audio recording of his views on Somalia earlier this year, the new authorities in the country's capital, Mogadishu, laughed hard. Mr bin Laden's thinking on this utterly failed state in the Horn of Africa seemed out-of-touch, even patronising. Yet only a few months after Somalia's latest "transitional" government was set up amid a rare burst of albeit cautious optimism, Somali radicals linked to al-Qaeda are gaining strength, while moderate Islamists, such as the country's new president, Sharif Ahmed, are losing ground.

A fresh flow of foreign fighters is said to be heading for Mogadishu. Some of them—Americans, Britons and Italians of Somali origin, as well as Arabs, Chechens, Pakistanis and Uzbeks—are no longer being hidden by their commanders but are being eagerly shown off to display the insurgents' global support.

When Ethiopia invaded Somalia with American encouragement in 2006, the aim was to fend off any kind of Islamist threat to Ethiopia and to catch the handful of al-Qaeda people sheltering in the country. The invasion and the ensuing air raids destroyed the first incarnation of Somalia's jihadists but the second seems to be proving stronger and fiercer. Robbed of their rationale by the withdrawal of Ethiopian troops and by Mr Ahmed's introduction of *sharia* law, they are hitting back harder.

In the latest fighting in Mogadishu, hundreds more people have been shot dead or injured, and tens of thousands displaced. The insurgents have tightened a noose around the capital by capturing the nearby towns of Jowhar and Mahaday. Such advances now let the jihadists control traffic between Mogadishu and central Somalia.

The fighters and their "technicals" (pick-up trucks often laden with heavy machineguns on the back) have also advanced on Beledweyne, a town close to the Ethiopian border. Their aim is apparently not to hold the town but to provoke Ethiopia into sending its troops back into Somalia, which could spur nationwide resentment towards the old enemy and more support for the radicals fighting against it. The Ethiopians

are reported to be poised to make incursions back into Somalia.

Loosely arranged in cells of 20-30 fighters, the radicals of the Shabab ("Youth") and Hizbul Islam control much of south Somalia too. Across the country, they get a lot of cash from taxes, from the profits of pirates, from extortion and from donations by Arabs and Somalis in the diaspora.

The attackers have also been gingered up by an old Islamist commander, Hassan Dahir Aweys, recently back from exile in Eritrea. He has stirred up his Ayr sub-clan and served as a rallying point for the radicals, who lack a unifying figure of their own. Machineguns and ammunition, plus anti-tank weapons and plastic landmines that can be used as bombs, have been flown into airstrips controlled by the insurgents across the country, including some near the capital. Intelligence sources say Eritrea has been sending the stuff, possibly with Iran's help. The Eritreans deny this.

The jihadists are hitting Mr Ahmed's government before it has had time to rebuild its own forces. Western governments have agreed to fork out $213m to set up a 6,000-strong army and a police force of 10,000. But the UN continues to reject pleas—from its own special envoy, Ahmedou Ould-Abdallah, among others—for it to send in a serious peacekeeping force, at least big enough to secure the capital and its immediate vicinity, including the airport and seaport. The 4,000 or so Ugandan and Burundian peacekeepers now propping up the shaky government under the aegis of the African Union (AU) are increasingly targeted by suicide-bombers.

Some 30 lethal suicide-bombs are thought to have exploded since five went off more or less simultaneously in October in Somaliland, which has managed to remain de facto independent (and fairly well-run) for several years, and in the semi-autonomous Puntland region, where various warlords, few of them jihadist, hold sway. In the quintuple bombing, an American of Somali origin blew himself up. Most bombers use suicide vests or blow up vehicles they are driving; the vest-wearers tend to be foreign. The targets are usually government buildings, ministerial convoys, the AU's base, businessmen, clerics and Somalis known to oppose the Shabab.

Mr Aweys describes the AU peacekeepers as "bacteria" that must be eradicated; whether such xenophobic rhetoric will inspire more Somalis to join the jihadists is unclear. Some observers say Mr Aweys is at risk of being assassinated by radicals who think him too nationalistic for the taste of Mr bin Laden's globalists.

One Somali commander says the aim of his insurgency is to "liberate Islam from Alaska to Cape Town". As radical fervour has grown in the past three years, many young Somalis now seem to take solace from the idea of a global *jihad*. "Radicalisation is now mainstream," says a seasoned monitor of events in Somalia. Young men, often at first lured by money, are then stirred by lectures and sermons into a desire for martyrdom. Many young Somalis in the diaspora, feeling vulnerable in their new countries, are targeted by recruitment videos on jihadist websites.

Often persuaded that Ethiopia serves as a proxy for the United States and European countries, some such men have become suicide-bombers. It is feared that attacks carried out by them in Ethiopia's capital, Addis Ababa, may be followed by similar ones on Nairobi, the capital of neighbouring Kenya, and in such distant places as London. Two of the would-be suicide-bombers in the second planned (but abortive) attack in July 2005 on London were Somali. While Somali pirates are a regional menace, Somali terrorists have international potential. On May 17th several local and foreign jihadists were reported to have been killed in Mogadishu when a bomb-making workshop blew up.

Towns captured by the jihadists are brought to order by what the Shabab calls *wa'yigelin* ("sensitisation"), which has recently included the public amputation of hands for theft, public executions for "collaboration" with Western organisations, and grenade attacks on shopkeepers who show Western or Bollywood films or who play pop music or sell CDs of it. The jihadists also kill human-rights workers and journalists; almost none has returned to Mogadishu under the new regime.

Sometimes, however, the jihadists can be more pragmatic. In Baidoa, which used to host the country's parliament until it was chased away, the insurgents let the locals chew *qat*, a narcotic leaf that Somalis (and Yemenis) have long enjoyed, if they go from the town into the surrounding desert. But they must

then return for a spell of *wa'yigelin* in the local mosque. If the jihadists win, they will bring in a harsh regime—with ripples across the region.

Jacob Zuma's first South African test

Not a whiff of corruption is allowed

May 21st 2009 | JOHANNESBURG
From The Economist print edition

Will the new president be as strict as he promised?

IN BRITAIN, politicians are being shamed for buying their chandeliers and cleaning their moats at the taxpayers' expense. In South Africa the size of your car and your herd of cattle is what seems to count. Barely a week after Sbu Ndebele was made transport minister, a group of road-building contractors offered him a Mercedes worth $130,000, plus petrol vouchers, two cows, a flat-screen television, a set of wine glasses and various other baubles. The temptation apparently proved too great. He gleefully accepted, hotly denying that he was doing anything wrong.

The presents, says Mr Ndebele, a decent former premier of KwaZulu-Natal, were a sign of appreciation from some 30,000 small contractors who had taken part in a road-construction training and development programme he set up in the province in 1996 to boost jobs and promote the policy of "black economic empowerment" in poor communities. Known as Vukuzakhe (Zulu for "rise up and build yourself"), the programme enabled local contractors to win public contracts over the past decade worth nearly 10 billion rand ($1.2 billion). No conflict of interest was involved, says Mr Ndebele; everything was done by the rule-book.

Under the government's code of ethics, ministers may accept business gifts provided they are properly declared and anything worth over 1,000 rand gets presidential approval. Many people were nevertheless quick to express outrage at this first apparent instance of sleaze in the new government of President Jacob Zuma. On the campaign trail, he had vowed to respond fiercely to the first whiff of bad behaviour in his administration. Now everyone was itching to see how he would react.

The Congress of South African Trade Unions, a powerful partner of Mr Zuma's ruling African National Congress, urged him to set a clear precedent by refusing to sanction such potentially compromising business largesse. Instead, he has apparently agreed to let his new minister keep the gifts—or so says Mr Ndebele, who has now nevertheless "voluntarily" decided to sell the car and cows and donate the proceeds to Vukuzakhe. He could not quite bring himself to part with the television set and wine glasses.

America grapples with Israel

What did Barack Obama truly feel?

May 21st 2009 | WASHINGTON, DC
From The Economist print edition

America's president fails to reassure Israel's prime minister

IN THE opinion of Americans who have dealt with him before, Israel's new prime minister, Binyamin Netanyahu, has lost none of his argumentative instincts. When he was last prime minister, from 1996 to 1999, he squabbled repeatedly with Bill Clinton. This time, on his first visit to Barack Obama's White House, he took the new president aback with an apocalyptic lecture on the 4,000 years of Jewish history which, he said, a nuclear-armed Iran would threaten to end. Among his conservative American friends and backers, Mr Netanyahu radiated a sense of apprehensive alienation from the new Democratic administration and its outlook on the world. Fortress Israel, it appears, will have to be his watchword. And Mr Netanyahu's American backers may, he fears, have to batten down in the face of some stormy years ahead under Mr Obama.

But Mr Netanyahu went home with one unpredicted achievement. With his Israeli guest at his side, Mr Obama appeared to set a rough deadline for his proposed dialogue with Iran. It would begin, he said, after Iran's presidential election next month. By the end of the year, "we should have a fairly good sense as to whether they are moving in the right direction." The Americans had previously balked at the Israelis' suggestion of a deadline.

But what if that dialogue ends in failure? Mr Netanyahu praised Mr Obama for having declared that "all options were on the table". The president, in fact, pointedly refrained from repeating that formula. "We are not foreclosing a range of steps, including much stronger international sanctions, in assuring that Iran understands that we are serious," he said. Mr Netanyahu's aides said the prime minister had been referring to a recent interview in which the president did approvingly mention "all options". At his briefing Mr Netanyahu added his own oracular line: "Israel reserves the right to act in self-defence." Such thinly veiled references to military action would, he contended, bolster diplomatic and economic pressure on Iran to forgo the bomb.

His recourse to the broad and often tragic sweep of Jewish history won proud approval from his new team of aides. "He will stand up for his principles," said one, outside the White House. "He will not be cowed." Some of Israel's more doveish commentators have bemoaned a preponderance of religious, skullcap-wearing men, some of them American-born, on the prime minister's staff. Such people are often associated with the Jewish settler movement on the West Bank.

Not all Mr Netanyahu's men are settlers or religious. One long-time confidant is Yitzhak Molcho, a lawyer who was at his side in his first term and whom American diplomats credit with achieving the modest progress that was then eventually made in negotiation with the Palestinians.

Mr Netanyahu and the Palestinian leader, Mahmoud Abbas, both say they are ready to resume talks without preconditions. Yet negotiations are, in effect, suspended. Mr Obama urged Mr Netanyahu to grab "an historic opportunity to get a serious movement on this issue".

Mr Netanyahu showed flashes of his old, combative casuistry as he batted aside the president's demand that West Bank "settlements must be stopped". Israel, argued the prime minister, had dismantled all its settlements in Gaza, but the Palestinians had failed to dismantle "terror infrastructures" as required under earlier agreements and had let the violent Islamists of Hamas take Gaza over. So settlement-building, by implication, could go on.

In any event, Mr Obama refused to accept what some Israelis suggest: that Iran must be made to forgo its nuclear programme before talks with the Palestinians can resume. "If there is a linkage," said the president, "I personally believe it actually runs the other way. To the extent that we can make peace with the Palestinians—between the Palestinians and the Israelis—then I actually think it strengthens our hand in the international community in dealing with a potential Iranian threat."

Mr Netanyahu separately met the secretary of state, Hillary Clinton, and the national security adviser, General James Jones. All meetings were duly reported to have been friendly. But at night, relaxing with an intimate group of American conservative magnates who have backed him over the years, Mr Netanyahu gave vent to his discomfort. For all his efforts to set the scene in a Jewish-historical perspective, he felt that the president focused more on the plight of the Palestinians. “What moves Mr Obama?”, he wondered edgily aloud.

Kuwait's mould-breaking election

It's hard to create a democracy

May 21st 2009 | CAIRO
From The Economist print edition

A recent general election may not make the government more effective

Reuters

Hail Rola Dashti, parliamentarian at last

THE economy of Kuwait is exceedingly well oiled. With just 3.4m residents, only a third of them indigenous citizens, the emirate sits on a claimed 8% of the world's petroleum reserves. Yet for all this wealth, Kuwait's political system remains creaky and crash-prone. Rather than inspiring the Persian Gulf's more authoritarian monarchies to reform, its 46-year-old experiment with limited democracy has often seemed a model to be avoided. Just since 2006, batterings from the 50-member parliament, which has tended lately to be dominated by Islamists and conservative tribal leaders, have sent five successive governments tumbling like ninepins.

Growing frustration with this game prompted a lower turnout in a general election on May 16th, but the results have raised hopes of change for the better. Overall, 21 incumbents lost their seats, among them several prominent Sunni Islamists. Parties are officially outlawed in Kuwait, meaning that candidates run as independents. But the affiliations of many are widely known, making some trends clear. Representation of the Muslim Brotherhood, for example, has shrunk from three seats to one in the incoming parliament; an arch-traditionalist Salafist Islamist group has dipped from five to two. At the same time, the number of Shia MPs has risen from five to nine, closer to the minority sect's 20%-plus share of the population.

Most eye-catchingly, enough of Kuwait's 385,000 eligible voters shook off traditional habits to elect women for the first time since they gained full political rights in 2005. Four women, all with doctorates from American universities, and only two of whom cover their hair as a sign of piety, won seats, and by convincing margins. Masouma Mubarak, a dean at Kuwait University, who had faced stiff Islamist opposition when holding ministerial rank in three cabinets, easily outpolled all rival candidates in her district. This is a first for the Gulf monarchies—bar a woman in the nearby kingdom of Bahrain who stood unopposed in a tiny constituency; a female has also been elected to the United Arab Emirates' federal council, but the voters are themselves handpicked by the authorities.

Yet while liberals have cheered the result as a mark of social progress, it does not necessarily augur plain sailing for the al-Sabah family that has ruled Kuwait since the 18th century. Sheikh Sabah al-Ahmad, who became emir in 2006, has exercised his privilege of giving family members top cabinet posts, repeatedly choosing his nephew, Sheikh Nasser Muhammad, as prime minister. Yet parliament's latest dissolution, in March, was prompted by the prime minister's objection to being questioned in parliament over his alleged mishandling of the economy, and possibly having to face a confidence motion.

With the emir having again reappointed Sheikh Nasser, and with the returning parliament sure to include some of his loudest critics, the stage looks set for a resumption of clashes. Ordinary Kuwaitis are wary not only of further dithering over such things as a planned bail-out package for financial institutions hit by the global recession and an oft-delayed mega-project to develop new oilfields. Rumours also hint at tensions in the Sabah family, with princely rivals to Sheikh Nasser said to be quietly egging on his parliamentary foes.

Given their huge stockpile of national savings from the oil boom years, plus plenty of continued income despite the drop in oil prices, Kuwaitis can probably afford to go on bickering anyway. Some incoming MPs, including Ms Mubarak, promise to push for procedural reforms to make the parliament's relations with the cabinet less confrontational. And still, for all its hiccups, Kuwait's hybrid system of government looks downright racy next to the crusty paternalism of the states nearby.

Saudi Arabia's rulers, for instance, have just scorned another of the numerous petitions from their people demanding democratising reforms, showing disdain by abruptly postponing the only elections the country runs, to half the seats on town councils that do not do much anyway. In the kingdom, Ms Mubarak would not only be denied the right to vote or run for public office. She could not drive to such an office in her own car, or even sit in it if that might mean mingling with the opposite sex.

Economist.com WORLD EUROPE

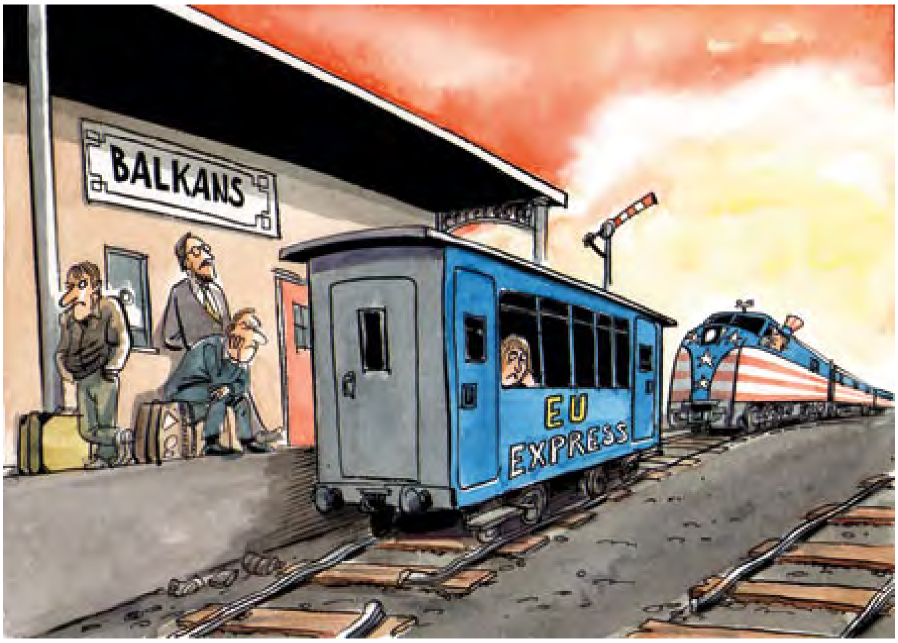
America, Europe and the western Balkans

Giving a shunt towards Europe

May 21st 2009 | BELGRADE
From The Economist print edition

A vice-presidential visit draws fresh attention to the urgent need to push the western Balkans forward

Illustration by Peter Schrank



Correction to this article

IN 1991 Radovan Karadzic, the then leader of the Bosnian Serbs, stood in the Bosnian parliament in Sarajevo and warned Bosnian Muslims (Bosniaks) that they were taking the country down the highway to hell. It was one of the most dramatic moments in the history of the destruction of Yugoslavia. On May 19th Joe Biden, the American vice-president, stood in the same place and denounced nationalist politics. In an emotion-laden speech, he exclaimed: “God, when will you tire of that rhetoric?...This must stop.”

Bosnia is not about to slide back to war. But in the past three years its progress since the 1995 Dayton agreement has ground to a halt. That Mr Biden chose to begin his Balkan trip in Sarajevo before going to Belgrade and Pristina, Kosovo’s capital, speaks volumes for the Obama administration’s concern about Bosnia, though it wants new momentum injected into the rest of the region too. The Americans are not alone in fretting over Bosnia. Shrewdly Mr Biden took Javier Solana, the European Union’s foreign-policy supremo, with him.

Mr Biden is one of several in the administration with a history of involvement in the Balkans. As one diplomat in Sarajevo puts it, “the Clintonites are back”. When the EU proved unable to end the Bosnian war in the early 1990s, the Americans took control. And in 1999, as the war between Serbia and its ethnic-Albanian majority in Kosovo worsened, President Bill Clinton rallied his allies and NATO began its 78-day bombardment of Serbia.

Today Mr Biden believes that the western Balkans may need outside help again. Europe is still not up to solving its own security problems, says Edward Joseph, a leading American Balkan specialist. The EU lacks a coherent policy towards Bosnia; by default American leadership in the region remains indispensable. Mr Joseph exaggerates, but not entirely. Just when it needs to maintain influence, the EU is poised to pull most of its remaining 2,000 troops out of Bosnia. America can help, but Balkan countries are on the path to joining the EU, not the United States.

The problem is that many have strayed, not least Bosnia. Indeed, Mr Biden explicitly told the Bosnians this week that “right now, you are off that path.” The country is saddled with an unwieldy post-war structure that produces an endless tug-of-war between Bosnian Serb leaders, who want to preserve the full quasi-independence of their entity, and Bosniaks, who want to centralise more state functions.

Meanwhile Serbia, having failed to arrest Ratko Mladic, a former Bosnian Serb general indicted for genocide, has stopped moving on its own path to European integration. Croatia, the most advanced of the former Yugoslav candidates, is being blocked by its neighbour Slovenia, which joined the EU in 2004, over a boundary dispute. And Macedonia, unable to resolve a quarrel with Greece over its name, has stagnated as an EU candidate since 2005.

The new administration’s decision to focus on the whole of the western Balkans, not just an independent Kosovo, is welcome to all—so long as the region does not become the object of a turf war between Washington and Brussels. Many in Washington think that the EU is hopeless and only a muscular America can sort out its problems. But they brush under the carpet uncomfortable facts, such as the miserable failure by the Americans to get their Bosniak friends to agree upon even a modest constitutional change in 2006. Behind closed doors this week, Bosniak and Bosnian Serb leaders heard a tough message from Mr Biden to co-operate more.

One idea under consideration is that America should appoint a special envoy for the Balkans. This is being greeted coolly by many Europeans, who think it might undermine their efforts to get the Balkan countries to do what they must do: continue to push through painful reforms. But Milica Delevic, director of Serbia’s European integration office, points out that, with Serbia blocked by the Mladic affair, it is becoming harder either to motivate officials or to maintain popular enthusiasm for the EU in a country that has been hearing the mantra of Europe ever since the fall of Milosevic in 2000.

Pierre Mirel, a senior official in the European Commission, detects a vicious circle in the making. Many EU members have cold feet about further enlargement of their club. As a consequence, Balkan leaders do not do enough to fulfil their promises to the EU, the reputation of the Balkans as an unsavoury region racked by organised crime remains, and the whole situation stays blocked. Only help yourself and Europe will help you, he concludes.

Today, almost everybody in the region desperately wants to travel to the EU without having to go through the time-consuming and expensive procedure of securing visas. Macedonians and maybe Montenegrins may get visa-free travel early next year. Serbs may too, but they have technical problems because of Kosovo, whose independence Serbia refuses to recognise. Still, if EU interior ministers give a green light to all three when they meet shortly to discuss the issue, it will be a huge boost to governments that want to be able to tell their people that hard work yields tangible results. It will also send a strong message to Bosnians and Albanians that their governments need to do more to win visa-free travel too.

On the economic front, there may now be grounds for modest hope. The global economic crisis has hit the Balkans hard. But Jurij Bajec, an economic adviser to the Serbian prime minister, says that several indicators in the past few weeks are making him a little less worried than he was two months ago. A healthy Serbian economy is vital for the whole region, but especially for Bosnia and Macedonia.

Belgrade has just held a festival of Sarajevo theatre, music and films. The Bosnians were greeted by emotional and rapturous audiences. Belgrade is plastered with billboards inviting Serbs to holiday in Croatia and Montenegro. One European diplomat says he hopes that the Biden visit means that Clinton-era officials will update their ideas of the region, which often remain stuck in the war years and tend as a result to be anti-Serb. The Biden visit is an opportunity for America and the EU to push the western Balkans forward together. If they are up to it.

Correction: we originally wrote that Macedonia had become an EU candidate in 2001. We meant 2005. This was corrected on May 22nd 2009.

Lithuania's new president

Steel magnolia

May 21st 2009
From The Economist print edition

Dalia Grybauskaite is tough—and she needs to be

AFP

Steely Dalia points the way

INTERESTING, but for the wrong reasons. That is a crude characterisation of Lithuania's dispiriting politics ever since the country regained its independence in 1991. In 2004 President Rolandas Paksas was impeached amid speculation over his ties to organised crime. In 2006 a senior politician, Viktor Uspaskich, claimed asylum in Russia after details of his party's unorthodox finances were leaked to the authorities. Barely less scandalous has been a 15-year delay over issues such as building a new nuclear power station or hooking up Lithuania's electricity grid to neighbours.

Luckily the politicians' failings have been offset by a small caste of impressive officials who have anchored the country in the European Union and NATO. Now one is to be president: Dalia Grybauskaite, who easily won the election on May 17th, is a former diplomat and finance minister. For the past five years she has been the EU's budget commissioner.

This has proved to be a good base for a political career. Lithuanians, shorn of their middle class under Soviet occupation, are impressed by experience abroad. The outgoing president, Valdas Adamkus, spent most of his life in America before returning "home" to serve two terms as head of state. In Brussels the hardworking and incisive Ms Grybauskaite has been a success. She has also used her position to make pointed criticisms of the Lithuanian government.

Nobody doubts her brains or grit. Yet she remains something of a mystery. Her election platform promised transparency and rigour, but gave few details of her views (she barely campaigned, and faced no serious challenger). Apart from her black belt in karate, her hobbies and tastes are unknown. Her zealously guarded private life (she is unmarried and childless) has prompted prurient media speculation. In Soviet days she taught agricultural economics in the Communist Party's in-house training college. In 1991 she was talent-spotted by an American programme for high-fliers in eastern Europe. But she does not seem to share the fervent Atlanticism usual among Lithuanian politicians.

Ms Grybauskaite's main formal role as president lies in foreign policy. But on domestic policy, she should work well with the centre-right coalition government that took office last year. She backs its austerity programme, which includes a 15% pay cut for all state employees—including her. She wants faster reforms, for example in energy, plus the sacking of incompetent ministers. Yet as Lithuania's leaders grapple with its current 12% fall in GDP, their big task is to explain the situation to a weary and cynical public. Finding the charm and sympathy to relate to ordinary folk may test the steely new president.

Troubled euro-area economies

A slow thaw

May 21st 2009
From The Economist print edition

Output may be starting to stabilise, but the worst news on jobs is yet to come

SPRING has arrived, stockmarkets are cheery and even forecasters are feeling a bit sunnier about the economic outlook. In the euro area, things could scarcely get worse, after an exceptionally severe winter. Figures released on May 15th showed that GDP in the 16-country group shrank by 2.5% in the three months to March, leaving it 4.6% lower than in the first quarter of 2008. The decline was led by Germany, the region's largest economy, where GDP has fallen by a staggering 7% from its pre-recession peak (see chart).

Germany has been laid low by the most virulent features of the global economic crisis: a collapse in world trade and a savage reduction in stocks by firms. Like Japan (see article), it is paying a price for overreliance on export-led growth. The pain of slumping foreign sales was amplified as firms anxious about future demand and keen to protect their cash reserves ran down stocks and cut spending on plant and machinery. Countries with less of a bias towards manufacturing than Germany, such as Britain, Spain and America, have fallen less far. In effect, they have been able to export some distress to their suppliers. Their service-based economies have fewer stocks to liquidate.

The rundown in stocks across the euro area may have cut as much as 1% off GDP during the first quarter, reckons Julian Callow at Barclays Capital. Since firms cannot eat into stocks for ever, and exports can hardly fall much more, the second quarter ought to be less bad. Business surveys certainly suggest as much. The purchasing managers' index, a closely-watched gauge of activity, rose in May to its highest since October. Forecasters are now pencilling in a smaller fall in GDP in the second quarter, of perhaps half a percentage point, and some are braced for a better figure if firms look to rebuild lean stocks faster. The economy may even claw back a bit of the ground it has lost later in the year.

Yet a more vigorous recovery may still be too much to hope for. One potential headwind is jobs. So far, the collapse in euro-area output has had an uneven effect on employment. In Spain unemployment has almost doubled in the past year. In Germany it has hardly budged, despite a much bigger fall in GDP. Like Spain, Germany has labour laws that make it costly to shed tenured workers. But at the peak of Spain's boom, a third of its workforce were on temporary contracts. These workers do not share the job protection enjoyed by the rest. Once Spain's construction boom turned sour, their jobs went quickly.

German employers, by contrast, have delayed cutting jobs. Many have cut shifts, leaning on a state scheme that subsidises the pay of short-time workers. But as firms adjust their payrolls to a lower level of demand, layoffs are likely to accelerate. Bigger job losses will dent consumer spending, which has held up fairly well so far.

The European Central Bank (ECB) is in for the long haul. Its main interest rate of 1% is higher than in Britain or America, but it makes unlimited loans to banks at that rate, for up to 12 months. That has kept interbank rates, the benchmark for loans to firms and households, below British levels at 3-month, 6-month and 12-month maturities. On June 4th the ECB will announce details of its plan to buy up to €60 billion ($83 billion) of the safest bank bonds to help with longer-term financing needs.

Such measures should be enough to avert a drying-up of bank credit, the main source of finance for euro-area borrowers. Yet firms will borrow to invest only if they believe that spending will revive. Spain, once the region's big consumer, has a hangover from its housing boom. The American consumer is faltering, British shoppers are heavily in debt and anxious Germans are unlikely to take up the slack. So recovery

from the collapse is likely to turn into a long hard slog.

Turkey's rebellious Kurds

Stone-throwers in glass houses

May 21st 2009 | ADANA
From The Economist print edition

Turkish promises to improve the treatment of Kurds ring hollow

AFP

INSIDE a concrete shack in the predominantly Kurdish slum of Daglioglu, in south-east Turkey, 17-year-old "Mehmet" (he cannot give his real name) rolls up his trousers and points to a deep scar. "They beat me, kicked me repeatedly, called me a 'dirty Kurd', forced me to do push-ups and demanded I become an informant." In another neighbourhood a 16-year-old girl suffered worse horrors. "Confess or I'll fuck you and your mother," she was told as she was driven to police headquarters. She and other female detainees were, she says, clubbed and dragged by the hair. In jail they were stripped naked and forced to kneel as wardens "searched our crevices".

Both teenagers are among hundreds of Kurdish minors who face prosecution around the country for allegedly taking part in illegal street protests in support of the separatist Kurdistan Workers' Party (PKK). In Adana alone, some 155 children are facing trial, 67 have been convicted and five have begun to serve their sentences, says Ethem Acikalin, head of the local branch of Turkey's Human Rights Association. All were charged under article 220/6 of the penal code, which criminalises "acting on behalf of a terrorist organisation". The cases are tried in adult courts. Most of the crimes consist of no more than chanting pro-PKK slogans and throwing stones at police. But some have also been charged with damaging public property, resisting arrest, spreading terrorist propaganda or endangering public security.

Mr Acikalin reckons that, even after benefiting from reductions because of his age, "Mehmet" will spend at least four years in jail. "When it comes to children, the courts have frequently chosen to place them in pre-trial prison detention for many months," comments Emma Sinclair-Webb, of Human Rights Watch, a New York-based watchdog. "This flies in the face of the Convention on the Rights of the Child, to which Turkey is a party."

It also flies in the face of recent efforts by the ruling Justice and Development Party to improve the lot of Turkey's 14m Kurds. After launching the country's first state-run (and predictably tame) Kurdish-language television station in January, the government hinted that it might let thousands of Turkified villages revert to their original Kurdish names. The army chief, General Ilker Basbug, recently conceded that, even though 40,000 rebels had been killed since the PKK launched its insurgency in 1984, "social and economic measures" were required. Murat Karayilan, the PKK's commander in northern Iraq, says the PKK no longer demands independence and is happy to let third parties negotiate a deal on its behalf. All of this prompted Turkey's president, Abdullah Gul, to declare recently that there was now "an historic opportunity" to fix the Kurdish problem.

Perhaps so. In Adana Mr Acikalin is "still in shock" after an unprecedented meeting with security bigwigs. "They listened with patience, offered us tea and promised to stop the abuse," he says. Yet Mr Acikalin, who is himself facing eight separate charges under article 220/6 for a series of public statements that he has made, insists he will not be swayed unless and until the law is changed.

His scepticism is shared by Ali Kulter, who ekes out $12 a day as a farmworker in Tuzluca, just south of Adana. Home is a reed shack without running water, the toilet is a hole dug in the ground that serves Mr Kulter and scores of Kurdish families. They migrated here in the early 1990s after being forced out of their villages in the south-eastern province of Sirnak for refusing to join a state-run Kurdish militia to fight the PKK. "Our village was an Eden, this is hell," Mr Kulter sighs. "If there were peace I wouldn't spend another second here." But, as the 55-year-old explains, "my stomach is full with unfulfilled promises [by the state]."

Some of his scorn ought to be directed at the PKK. Despite Mr Karayilan's doveish talk, his men continue to blow up Turkish soldiers. The Danish-based, PKK-leaning channel, ROJ TV, "certainly plays a part in inciting teenagers," says Guven Boga, who represents Egitim Sen, a leftist teachers' union. One big worry, he adds, is ethnic tensions between Kurdish and non-Kurdish students that flare up with each PKK attack. The other is the lack of opportunity for many Kurdish youths. "They are angry and have no hope for the future," Mr Boga says. Their experience in jail only hardens them. And this makes them perfect recruits for the PKK.

Economist.com WORLD EUROPE

The Federal Republic at 60

A German anniversary

May 21st 2009 | BERLIN
From The Economist print edition

Sixty years have passed since the birth of the Federal Republic of Germany

IF YOU are a German, the odds are that one day you will be mocked at the tiny PrimeTime Theatre in Wedding, a goulash of a neighbourhood in Berlin. Five nights a week the PrimeTime lampoons the *Ossi* battle-axe who runs the local employment agency, the provincials who torment their Satan-worshipping son in his Berlin pad with cake and hometown gossip and the Turkish lounge singer too lazy to do his own singing. The PrimeTime is like a comedic particle accelerator, smashing together the elements of today's Germany.

It would have been unthinkable six decades ago, when the country was much poorer, a lot glummer and far less diverse. May 23rd sees the 60th anniversary of Germany's "basic law", and thus of the Federal Republic. Other commemorative dates loom: October 3rd is unification day, a national holiday, and November 9th will mark 20 years since the fall of the Berlin Wall. But on this weekend's birthday Germans are taking stock of their democracy. A thousand essays have bloomed; Berlin and other cities will hold street parties; and on the same day an assembly of legislators and state representatives will elect the federal president (probably the incumbent, Horst Köhler).

Given their history, most Germans consider the Federal Republic a success. Largely because it had the luck to be occupied by the Western victors of the second world war, it opted for alignment with the West and a market economy. Full sovereignty was restored only slowly. The allies ended their occupation and took West Germany into NATO in 1955. Willy Brandt's *Ostpolitik* led to West and East Germany recognising each other's borders and their separate membership of the United Nations in 1973. Just 17 years later, Helmut Kohl managed to secure unification without abandoning the Western orientation.

Corbis

It was a hard life 60 years ago

Germany's economic recovery took off with the arrival of the D-mark in 1948, which relieved post-war shortages and spurred production. In the miracle years of 1950-73, GDP grew by an annual average of 6%. With the bounty politicians extended Bismarck's welfare state, adding more heft to the "social-market economy" than founders like Erhard intended. The constitution proved supple enough to secure both freedom and public safety. And through reparations, trials, schoolbooks and monuments, Germany did much to atone for the crimes of the Nazis.

By the late 1990s, said Chancellor Gerhard Schröder, Germany was on its way to becoming a "normal" country. That meant a normal willingness to defend its own interests, for example in the European Union, and also a readiness to send troops on such foreign missions as the war in Kosovo. The 2006 football World Cup, which Germany hosted, became a festival of easy-going patriotism.

Yet Germany would not be Germany if it did not obsessively monitor itself. Facing the republic's worst-ever economic crisis, will Germans show themselves fair-weather democrats? Not so far: a survey found in

April that 68% judged the political system favourably, up from 56% last September. In general, far-right parties have found less purchase than elsewhere in Europe. The ex-communist Left Party, which rejects such tenets of the post-war consensus as NATO membership, is losing support. But so, worryingly, are the two big-tent parties, the Christian Democratic Union and the Social Democratic Party, now partners in the grand coalition government. The ranks of non-voters are growing; they are potential recruits, some fear, for something worse.

Post-war certainties are fraying. America is weaker, the EU more unwieldy and Russia less predictable. Almost monolithically middle class until the 1980s, German society has grown more unequal today. Germany is both greying (which will make its welfare state less affordable) and becoming more colourful. A third of young children come from migrant families; nearly three-quarters of young Turkish men do not have vocational qualifications, says Michael Hartmann of Darmstadt's Technical University. Rising inequality also threatens Germans' sense of security. That is why they have spent over €1 trillion ($1.4 trillion) so far to narrow the gap between west and east. Overcoming differences between white and brown, skilled and unskilled may take more than money.

Plenty of Germans take all this very seriously. But Constanze Behrends and Oliver Tautorat, PrimeTime's creators and co-stars, do not see that as their role. They are a neo-German mash-up (she is an *Ossi*, he a Greek-Franconian hybrid) and like the idea that Germany is heading their way. "People who come from other countries helped Germany be a little more relaxed," says Mr Tautorat. Thanks to these newcomers, the PrimeTime will continue to stage its protests against solemnity.

Charlemagne

Libertas or freedom?

May 21st 2009
From The Economist print edition

Ireland prepares for a European election and, more crucially, another referendum

Illustration by Peter Schrank

HEARD the one about Irish voters and the European Union? Brussels Euro-types think they know how the joke ends, and are chortling already. Last June Ireland held a referendum on the Lisbon treaty, and the voters returned a decisive No. The main causes, say the Euro-types, were Irish cockiness in an economic boom, ingratitude after decades of EU subsidies, a hopeless Yes campaign and, most important, ignorance of the treaty, made worse by the No campaign's lies. Research shows one in three voters wrongly believing that the treaty would bring in conscription to a European army and end Irish control over abortion.

Yet this autumn a second Irish referendum will be held on the Lisbon treaty, and the latest poll suggests that 52% will vote Yes and just 29% No. In the European elections next month Declan Ganley, a rich Irish businessman who led last summer's No campaign, is heading for humiliation. He says his new Libertas party is running 500 candidates around Europe. Mr Ganley is standing in the north-west of Ireland, repeating lines that wowed voters last June about "unaccountable elites" making EU laws. He has dealt with such handicaps as a strong English accent (he was born and raised near London, to Irish parents) and questions about his wealth (he says he is "probably" worth more than €10m, or $11m, thanks to a business supplying radios and suchlike to American law-enforcement and national-guard units). At a meeting in Donegal on May 18th, he rhapsodised about childhood summers in Galway "cutting turf out on the bog with my grandfather", and humbly asked for donations (biscuit tins were then passed round, with slots in the lids for cash).

On the campaign trail Mr Ganley assures voters that, with a high enough turnout, Libertas may win 106 European Parliament seats. At a stop in the port of Killybegs, a retired teacher, Jim Boyle, declared that locals would be "idiots" not to elect a man destined to have such influence in Europe, murmuring, eyes a-gleam: "It's like being Obama's home state." Alas for Mr Boyle, the predict09.eu website, which aggregates polling data across Europe, shows Libertas-affiliated candidates on track to win just two seats in a single country, France. Mr Ganley himself seems set for defeat, polling half what he needs for a seat.

What is going on? Those Brussels types think they know: the economic crisis has focused voters' minds in a salutary way. But for EU membership, they scoff, Ireland would be like Iceland, another cocky island with over-large banks and a housing bubble.

But Irish voters are not a joke. In attacking the clause in Lisbon that would mean that some countries no longer had a commissioner all the time, they were on to something. Shrinking the commission was a political idea pushed by France and Germany, designed to make the commission more European and break the link between member countries and “their” commissioners. But the Irish feel more comfortable with their commissioner at the table, and it seems that other governments privately agree. EU leaders have now tweaked the rules so that every country will, after all, keep a commissioner.

Nor is the failure of Libertas a solely Irish story. Instead, it reveals two things. In referendums party loyalties are put to one side, but in elections voters revert to what they know. And Libertas is suffering from the structural hurdles facing pan-European parties. Mr Ganley’s success last June was a piece of political arbitrage. Previously, Irish opposition to EU treaties had been based on indigenous worries over abortion or neutrality. He was the first person to import the full panoply of British Eurosceptics’ talking points to Ireland, with their core message that hard-to-read EU texts like Lisbon are a plot to transfer sovereignty from national governments to unelected Eurocrats. But then comes a big difference. In Britain Eurosceptics dream of clawing back sovereignty. Mr Ganley’s solution is electing Eurocrats: he wants commissioners to be elected either by national parliaments or directly by voters in each country. He also wants the European Parliament to have power to initiate EU laws. That adds up to more Europe, not less. Such arguments resonate in Ireland, a basically pro-European place. But they make Libertas incoherent in countries like Britain, France or the Czech Republic, where the people who hate Lisbon tend to dislike the EU in general.

Vote early, vote often

What of the second referendum on Lisbon this autumn? Looking at the polls, a Yes vote is widely expected. The government is deeply unpopular, but the European and local elections next month may allow voters to vent their anger. The next Lisbon campaign will not be headed by politicians or big businessmen: expect lots of wholesome young people from European-studies courses. Micheal Martin, the foreign minister, thinks the concession that Ireland will keep its commissioner, to be ratified by an EU summit in June, robs the No camp of a key argument. But Mr Martin also notes that polls before the first Lisbon referendum showed the Yes camp way ahead. With 19% don’t knows, he concedes that “there is a campaign to be fought yet”.

The economy is also getting steadily worse. That may increase anger about immigration from eastern Europe, suggests Ruairi Quinn, a Labour politician who headed a Yes campaign group last year. Such worries were around in coded form last year, he thinks, when voters asked about Lisbon and “workers’ rights”. To their shame, two Libertas candidates in Ireland have called for the closure of Irish borders to EU migrant workers (though not Mr Ganley), much to the annoyance of their Polish allies, who thought Libertas believed in the free movement of labour.

Thus the story of Ireland and the Lisbon treaty still lacks a clear punchline. And in these hard times, it may yet end in ways that raise no laughs at all.

Economist.com/blogs/charlemagne

The Commons speaker quits

Ordered out of office

May 21st 2009
From The Economist print edition

The expenses scandal claims its biggest victim, though certainly not its last

Reuters

IN 1695, the year a speaker of the House of Commons was last ejected from the gilded post, Parliament voted not to renew the Licensing of the Press Act, which had censored "seditious, treasonable and unlicensed Bookes and Pamphlets". The path to a free press was cleared.

Today's MPs—including Michael Martin, the speaker, who was forced to declare his resignation on May 19th—might well curse their forebears. A fortnight has elapsed since the *Daily Telegraph* newspaper began exposing MPs' abuses of their lax expenses regime. But Parliament is as traumatised and discredited as when the first stories of taxpayer-funded dog food, home furnishings and moat-maintenance hit news-stands. Some MPs have returned money or decided not to seek re-election; a minister has quit. More may follow.

But Mr Martin's has been the biggest scalp so far. Long thought too indulgent of Parliament's expenses culture, he reacted to the revelations by berating MPs who upheld publication of the leaked information rather than the culprits it revealed. A tardy apology on May 18th aimed at staving off pressure from fellow MPs that he resign only heightened it. In a stumbling speech Mr Martin pledged nothing bolder than a meeting of party leaders to discuss reform; he failed to say, as expected, that he would step down after the general election that must be held by June of next year. MPs in the chamber, some of them from his own Labour tribe, implored the speaker to quit. The prime minister, Gordon Brown, apparently told him the government would allow a vote of "no confidence" against him otherwise. His battle lost, Mr Martin will vacate the chair on June 21st.

Cynics say that MPs have made the speaker the fall guy for their own avarice. True, he did little to change the slack rules on expenses (especially the so-called second-homes allowance, which financed the most egregious nest-feathering). But he did not force anyone to exploit them.

The convention that MPs refrain from criticising the speaker has been another victim of recent events. But Mr Martin's authority was shot anyway. The job usually alternates between the two main parties, so his election to replace Labour's Betty Boothroyd in 2000 annoyed many Conservatives from the start. "Gorbals Mick", his nickname in snootier corners of Parliament and the press, was a cruel dig at his poor

childhood in Glasgow—and, for those attuned to that city's sectarianism, a gibe at his Irish Catholic roots. But the snobs were right that his thickly-accented mumble rarely commanded the braying Commons. (Ms Boothroyd, hardly a blue-blood, was a fearsome speaker.) Tories thought him biased towards Labour during debates. He and his wife made the most of expenses themselves. And he gracelessly passed the buck when an MP's office was raided by police without a warrant last year.

For all his sins, Mr Martin will probably go to grass in the House of Lords, like many speakers before him. The rest of Westminster has busier times ahead. Far from satiating voters' thirst for blood, the speaker's decapitation may have whetted it. Hazel Blears, who dodged capital-gains tax (which she has since paid) on the sale of one of her homes, may become the scandal's first cabinet victim. And party activists are considering ways of deselecting other greedy MPs.

A new speaker must be elected on June 22nd: candidates include Sir Alan Beith, a veteran Liberal Democrat, the Tories' John Bercow (the current favourite) and, though he has yet to declare, a Labour maverick, Frank Field. If Mr Martin quits as MP as well, a by-election will be held in the constituency of Glasgow North East. Last year a defeat for Labour in a nearby seat rocked Mr Brown's premiership; he might struggle to survive a repetition.

Responding to the clamour for reform, though, is what will keep politicians busiest. All parties have more or less agreed to accept whatever changes to the expenses rules are recommended by Sir Christopher Kelly, head of an independent commission, when he reports later this year. On May 20th Harriet Harman, the leader of the Commons, gave details of the interim measures sketched the day before by Mr Brown. These include a ban on "flipping" the designation of MPs' first and second homes and a tighter cap on the accommodation allowance. She wants a shift from self-regulation to external monitoring, but transparency is also needed. After meeting party leaders on May 19th, Mr Martin said that all claims would be published online.

Useful tweaks, but some long for deeper change. David Cameron, the Tory leader, says only an early election will let Parliament start afresh. (Mr Brown, well behind in the polls, demurs.) The Lib Dems' Nick Clegg, the only leader to call openly on Mr Martin to go, thinks reform of expenses should go with a broader overhaul of what Parliament does and how it is elected. Another bold idea, mooted more by observers than by those who would have to wield the axe, is dismissing forthwith any MP found to have fiddled.

The sheer durability of the expenses drama has caught many by surprise. It has overshadowed other wrongdoing in the House of Lords: on May 20th Lord Truscott and Lord Taylor of Blackburn were suspended for having shown themselves willing to amend legislation in return for cash. But expenses-gate may now fade fairly quickly. Parliament went into recess on May 21st. Local and European elections, which take place on June 4th, have a way of crowding out other news. Politicians are starting to look serious about reform. And, as the MPs who made merry with public money would have done well to remember, there is a recession going on.

Soldiers' human rights

The charge of the legal brigade

May 21st 2009
From The Economist print edition

Troops have the right to life even on the battlefield, judges confirm

Catherine Smith

Snapshot of a soldier: Private Jason Smith

NOBODY knows quite how scorching were the conditions in which Private Jason Smith died of heat stroke in Iraq in 2003, because all the available thermometers had reached their limit of 50 degrees Celsius (122 Fahrenheit). But the inquest into his death concluded that it could have been avoided had the army only followed “proper procedures” in treating him. Among other failings, said the coroner, it gave troops “wholly inadequate” advice on coping with the searing heat.

That ruling, in 2007, was not enough for the soldier’s mother, who brought a case before the High Court arguing that the army’s failures had breached her son’s right to life, enshrined in article two of the European Convention on Human Rights (ECHR). The court agreed, adding that the convention covered soldiers on patrol and in battle, not just on British bases as Smith was when he died. On May 18th, to the dismay of the Ministry of Defence (MoD), the Court of Appeal upheld that judgment.

Army bosses now fear a flood of litigation from soldiers’ families and, perhaps worse, that commanding officers will become reluctant to commit troops to anything too risky. The MoD called the ruling an “attempt to insert lawyers into the chain of command”. Sir Mike Jackson, a former chief of the defence staff, worried that soldiers would feel that “everything they do may two or three years later be judged coldly in a court of law.”

Battlefields, though, were not lawless places before this. Army regulations, the laws of war and basic criminal law apply as they do elsewhere, and judges have not so far been interventionist enough to distort soldiers’ on-the-spot judgments. And generals have form in making alarmist predictions of catastrophe following rulings on human rights. In 2002 European judges found that British courts martial were insufficiently impartial; the subsequent reforms did not cause the collapse of discipline that some had feared.

The impact of this ruling may be felt more strongly higher up the decision-making chain, however. Squaddies have long complained about being sent out without good enough equipment; there have been several scandals over soldiers killed because they lacked body armour or other kit. This week’s decision may make defence bosses more scrupulous about providing it—or more timid about sending out their troops under-equipped.

Inquests could also be improved. The ECHR requires that any death where the state is involved be investigated transparently; the government may now find it harder to deny this on the grounds of “national security” that it has sometimes used in the past. (Separately, on May 15th the Ministry of Justice dropped plans to allow secret inquests without juries, which could have allowed embarrassing “friendly fire” incidents to go unheard.)

The court’s intervention may well bring benefits. Even so, some wonder if such matters ought to be in the hands of unelected judges at all. Dominic Raab, a Tory aide and author of a book on human rights, points out that after this expansion of human-rights jurisdiction, courts may have to decide whether commanders acted reasonably in sending ill-prepared troops to war—as happened in the Falklands, for instance. “Judges are not well placed to make, nor can they be held accountable for, such finely balanced military, political—and ultimately moral—assessments,” Mr Raab argues.

For now, the ruling has made some long-term critics of human rights think twice. Just as the campaign for

Gurkha soldiers' settlement rights attracted the backing of those who normally oppose immigration, the ruling on soldiers' rights has won support in unlikely quarters. The *Daily Express*, a tabloid newspaper that often rails against the "madness" of the human-rights act, said it was good that soldiers would get the protection already given to criminals. Campaigners for human rights, meanwhile, are delighted to have some more popular examples of the act's benefits to talk up.

Dire days in commercial property

Still blighted

May 21st 2009
From The Economist print edition

The market has taken a terrible drubbing and will not recover soon

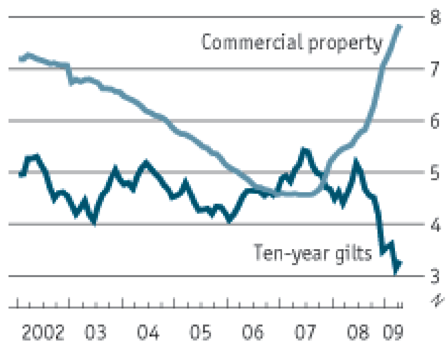
THE pain has been excruciating. Commercial-property values have dropped by 43%, a record decline, since their peak in June 2007. In western Europe, only Ireland has experienced a bigger fall, according to IPD, a data provider.

The immediate prospects for the British market remain grim. The Royal Institution of Chartered Surveyors (RICS) says that 59% more surveyors expect capital values to fall than to rise in the second quarter of this year. Gloomy though such sentiment seems, the mood is even darker in a majority of the 40 other countries surveyed and compared in a report released on May 19th. Britain is further advanced in the commercial-property cycle, explains Oliver Gilmartin, an economist at RICS.

Values lurched downward as investors in British property woke up and stopped accepting ever lower yields: at one stage these had dropped below even yields on risk-free government bonds (see chart). After falling to just 4.6% in the first half of 2007, property yields have since rebounded to 7.8% this April, their highest in almost 12 years. Since values are inversely related to yields, this turnaround has been the main factor in the decline of the market, says Kelvin Davidson of Capital Economics, a consultancy.

Rude awakening

Yields, %



Sources: Thomson Datastream; IPD

On the face of it, yields of close to 8% should be enough to steady the market, provided investors start to regain their nerve. After all, property remains a hedge against inflation, an attraction to those worried that the Bank of England is creating money through its “quantitative easing” to fight the economic downturn. But official figures released this week suggest that such inflationary fears are exaggerated. Retail prices dropped by 1.2% in the year to April, the biggest fall in the 60-year history of the index, while the narrower measure of consumer-price inflation sagged to 2.3%, only a bit above the 2% target.

The property market is experiencing its own version of deflation as rents decline. This will add another twist to the misery, forcing capital values down further even if yields do stabilise. Compared with those in other countries, surveyors in Britain are especially gloomy about the short-term outlook for rents, finds the RICS report. And rental values have already dropped by 6% in the year to April, according to IPD.

Commercial-property woes have hurt not just investors but also banks. Losses from poor lending decisions on office blocks, retail outlets and the like by HBOS are a big reason why its shotgun takeover by Lloyds proved so disastrous. Sir Victor Blank, the chairman of Lloyds who pushed through the deal on which Gordon Brown was keen, paid the price for angering shareholders. On May 17th he said he would step down sooner than expected.

Loans on commercial property were some £225 billion ($349 billion) at the end of 2008. A third is due to be repaid this year and next, according to a forthcoming report from researchers at De Montfort University. That overhang of debt—and the need to refinance so much of it swiftly—is another reason why the outlook for commercial property remains blighted, says Bill Maxted, one of the authors.

Capital values are now dropping less steeply than in late 2008, when they were in virtual free fall. But a panel of experts convened by Reita, a trade body, thinks that the market is unlikely to hit bottom until next year. The trough will probably come towards the end of 2010, says Mr Davidson, when capital values will be 55% lower than their peak in 2007.

Until now, the decline in the market has been fairly uniform across its three main sectors—retail, offices

and industrial. But looking ahead, industrial property is likely to outperform retail, which is in turn likely to do better than offices, says Mr Gilmartin. The prospects for the London office market look especially bleak as financial firms cut back and new developments are finished.

This outlook is consistent with an eventual economic recovery that will favour manufacturers and exporters, thanks to sterling's big depreciation, while domestically oriented providers of services fare less well than before. But whatever sector does best, the overall prospects are dull. Tenants rather than landlords are calling the shots in a chastened market.

Fiscal stimulus in Jersey

Balancing ye bookes

May 21st 2009 | ST HELIER
From The Economist print edition

Islanders gently push the boat out

Alamy

Easy does it

BENEATH a plaque to Sir Walter Raleigh, who governed the island from 1600 to 1603, ministers, deputies and constables of the States of Jersey debate heatedly how to spend their way out of economic crisis. For a Gulliver from the profligate mainland, where fiscal stimulus is counted in tens of billions of pounds, the numbers are Lilliputian: £44m ($70m) to be spent on accelerating housing projects and other schemes, training nurses, creating jobs for school-leavers and backing new businesses.

Unemployment is edging above 1,000 in this Channel Island paradise, one of Britain's offshore dependencies, where financial services employ 13,000 of the 92,000 population and provide a third of state revenues. Add to the jobless the young hopefuls freshly graduated from British universities, returning home because they cannot find work elsewhere, and there is a looming need for stimulus which has stirred even cautious, conservative Jersey into action.

Its economy, which continued to grow last year, is heading into negative territory this year and next. Philip Ozouf, the young, energetic Treasury minister, argues vehemently that Jersey needs to dig into its rainy-day Stabilisation Fund and Strategic Reserve, which together come to around £650m. The prudent government has been building these funds since 2006 and 1986, respectively, to meet catastrophes and cyclical shocks.

Jersey has no significant debt. So spending £44m now in order to combat predicted annual deficits of £60m for the next few years is hardly lavish. But it may not do the trick. Geoff Southern, an opposition member of the island's legislature, fears much of the money will end up in foreign suppliers' and contractors' pockets. Such "leakage" abroad might make fiscal stimulus less effective in Jersey than in bigger economies, the independent Fiscal Policy Panel suggested in a recent report.

Despite a prudence that the mainland's prime minister, Gordon Brown, must envy, Jersey's dependence on financial services makes it highly vulnerable to the credit crunch (especially its dire effects on the City of London) and to increasingly tough moves against offshore money centres. Besides tourism and agriculture there is not much to fill the gap. So is decline inevitable?

Immigration is no solution, since a population of 100,000 is the limit, most islanders opine. That makes it hard to roll forward the public-sector pensions deficit: today's contributors and pensioners will take the pain equally, says Mr Ozouf, refusing to pass the buck to future generations. Personal income tax, currently at 20%, will almost certainly have to go up. So may the unpopular 3% tax on goods and services introduced last year, Jersey's first stab at indirect taxation. Unpopular choices will have to be made by the parliament's 53 elected members, in between more standard fare such as revising shipping rules, scrutinising civil servants' expenses and considering an island-wide speed limit of 30mph.

Jon Cruddas

Thinking man's street-fighter

May 21st 2009
From The Economist print edition

The intriguing MP for Dagenham

THE elections on June 4th may produce something graver than another nail in the government's coffin. A recent YouGov poll predicts a rout for the Labour Party in that day's European ballot, and psephologists at Plymouth University foresee the party's worst performance since 1977 in local elections to be held concurrently. More shocking is the prospect that the far-right British National Party (BNP) might win its first seat in the European Parliament. It is doing well in regions such as Yorkshire and Humber, and the West Midlands.

If that happens, the reverberations will reach Dagenham, a London suburb represented in Parliament by Jon Cruddas, one of Labour's most intriguing MPs. Formerly the home of white, working-class Everyman (Britain's pop canon features not one, but two songs called "Dagenham Dave"), the seat has been rendered fractious by immigration since he won it in 2001. The BNP have 12 of 51 seats on the local council and may make further gains next year. Competition for housing and services, rather than race as such, is the source of tension, says Mr Cruddas. He hopes a "progressive coalition" on the ground, with party activists campaigning beside church and voluntary groups, can keep the BNP at bay without appropriating its ideas or language.

Despite his pavement-pounding, for Mr Cruddas not all politics is local. Some is cerebral. The 47-year-old is the Labour left's most restless thinker, defying the caricature of big-state dinosaur. He champions the "ethical socialism" of interwar Labour intellectuals such as R.H. Tawney and John Macmurray, Tony Blair's muse. This school is wary of bureaucracy, informed more by religion than by ideology and aims for cohesive communities as much as economic equality. Some of his ideas, such as a middle-class tax cut, are Conservative-friendly. He blames the decline of working-class communities on the excesses of social, as well as economic, liberalism. In his personal history no less than his heterodoxy, this Catholic sailor's son with a PhD and a taste for Ingmar Bergman is among Westminster's most curious specimens.

Mr Cruddas's ambitions are also hard to decipher. Had he accepted the prime minister's offer of a ministerial job last year, he would be a national figure today. Instead he is untainted by membership of a loathed government. Some think he may exploit that credibility and campaign for the Labour leadership after the party's likely defeat at the next general election.

But Mr Cruddas is keener on high theory and local action than on Westminster politics. He admits he is not much of a parliamentarian. And however nuanced his views, some think him too left-wing to lead the party. More plausible is talk of a second tilt at the deputy leader's job—he lost to Harriet Harman in 2007, but ran strongly—perhaps in alliance with James Purnell, the Blairite work and pensions secretary. Both men once advised Mr Blair and may be able to surmount their differences over Europe and market reforms in public services, both of which enthuse Mr Purnell more. With his trade-union past, Mr Cruddas—who has joined the board of Demos, a think-tank with links to Mr Purnell—could furnish his younger colleague with the *bona fide*s he lacks.

The backbenches give Mr Cruddas creative freedom and time in his constituency. But Labour's probable loss next year may trigger a fight for the party's soul. If so, there will be a premium on big ideas, not just sharp elbows. Even for someone as indifferent to Westminster as Mr Cruddas, joining the fray may prove irresistible.

Crossrail v the Tube

Projects at war

May 21st 2009
From The Economist print edition

A long-postponed new railway threatens London's Underground

CROSSRAIL, a planned cross-London train service that would link Maidenhead in the west with Shenfield in the north-east, relieving the city's crammed underground-railway lines, is a standing joke. First mooted in 1974, it has become, like New York's long delayed Second Avenue subway, a byword for false dawns, postponed promises and governmental vacillation.

The joke may finally be over. On May 15th Gordon Brown joined Boris Johnson, London's mayor, to mark the beginning of construction on a £500m station beneath the Isle of Dogs, near one of London's two financial districts. "Many people said it would never be built," crowed the prime minister. "But today we are celebrating a defining moment for London, as Crossrail's construction gets under way." The £15.9 billion project, supposedly the biggest in Europe, is scheduled to be up and running by 2017.

Its birth has been difficult, as well as delayed. The funding package is tortuous. Transport for London (TfL), the capital's devolved transport operator, and the Greater London Authority are contributing £7.7 billion in total, including £3.5 billion from a special surtax on London businesses. Around £5.6 billion will come from the central-government Department for Transport, and a few hundred million is expected from each of the Corporation of London (the City's local government), Canary Wharf (a big property developer) and BAA (which runs the capital's airports). Network Rail, in charge of Britain's rail infrastructure, will top it all off with £2.3 billion.

Despite Mr Brown's assurances, the funding for Crossrail is not yet guaranteed. The business levy relies on legislation currently passing through Parliament. Worried about a legal challenge to his plans, Mr Johnson has asked ministers for specific assurances that he can proceed with the tax without polling the firms concerned. And on May 20th he said he was considering asking the central government to make firms outside London contribute too, a move that is unlikely to be popular.

Such wrinkles will doubtless be ironed out. But Tony Travers, a Crossrail-watcher at the London School of Economics, worries that if the project does go ahead, it could be at the expense of London's other big transport undertaking, the 30-year public-private partnership (PPP) to upgrade the city's clanking Underground. It is already in trouble: Metronet, the firm responsible for two-thirds of the job, went bust last year. Its work was taken over by TfL, at a cost that is still unknown. And in September the contract regulator estimated that the price of the work due to be carried out between 2010 and 2017 by Tube Lines, the remaining contractor, was £1.4 billion more than TfL had thought.

These budget worries are causing headaches. A Whitehall bail-out of TfL looks unlikely in these straitened times (and in any case, the Treasury has already had to pay £1.7 billion to the creditors of Metronet, 95% of whose debt the government guaranteed). Crossrail cash could probably be diverted to prop up the Tube instead. Mr Johnson has insisted that Crossrail and the PPP are "co-equal" priorities, but Tim O'Toole, London Underground's influential (and recently departed) boss, is thought to have argued forcefully that the Tube should take priority.

So which project will suffer? Either, or both. The recession has halted the growth of passenger numbers on the Tube. This reduces the urgency to build Crossrail (and further weakens TfL financially, since planned increases in fare revenues will not happen). On the other hand, cutting back or delaying Crossrail yet again would be acutely embarrassing, and its delicate financial arrangements would probably not survive a call for more cash later. Paring down the PPP contracts and hoping that Tube passengers don't notice the absence of improvements they never enjoyed could prove more attractive.

Chris Woodhead on schools

Still raging

May 21st 2009
From The Economist print edition

The scourge of teachers surveys the desolation of learning

Guardian Syndication

Woodhead doesn't like what he sees

"SACK the useless teachers!" ran the headline above an interview with Chris Woodhead in 1994. And the newly appointed chief inspector of schools grew no more emollient on the job. Naming and shaming bad schools and teachers would raise standards ("I personally respond to threats"); educational research was "an irrelevance and a distraction"; schools didn't need more money, but to jettison progressive teaching methods. After becoming prime minister, Tony Blair kept the Conservative appointee on as part of the attempt to persuade middle England that New Labour was not in hock to the unions. When Mr Woodhead finally resigned in 2000, after clashing repeatedly with David Blunkett, the education secretary of the day, many schools threw staffroom parties.

Now the scourge of trendy teachers is back, and as intemperate as ever. In "A Desolation of Learning", a book published on May 22nd, Mr Woodhead surveys state schools in England and sees a wasteland. The national curriculum intended to ensure that all children learned the basics has become a "solipsistic daydream". The inspectorate he used to lead is no longer an impartial arbiter but a partisan thought-police, "arguably the most lethal part" of the system. Government oversees "bloated bureaucracies and frenzied initiatives", and the opposition Tories can be as "sanctimoniously utopian" as New Labour.

Some of this is the bile of a practised controversialist. After leaving the schools inspectorate, Mr Woodhead became a newspaper columnist. In that role he castigated progressive teaching methods and encouraged parents to write in with complaints about their children's education. In 2004 he became chairman of Cognita, a chain of profit-making private schools, which meant adding charitable schools (keen on wasteful "frills and frippery") to the long list of targets of his ire.

But some of what Mr Woodhead has to say is a deft skewering of educational mealy-mouthedness and doublethink. Take his assertion in a recent *Guardian* interview that children of middle-class professionals—doctors, lawyers and so on—are likely to be more intelligent than poor ones, in part because of "better genes".

Few people still believe that intelligence is utterly divorced from genetic inheritance, and it is equally improbable that it has absolutely no bearing on a person's career. Yet the syllogism caused outrage among the paper's left-wing readers—even though Mr Woodhead also said that some working-class children were "exceptional", and that nurture played a part.

Mr Woodhead does offer policy prescriptions—a return to grammar schools, and education vouchers that could be spent in any school, state or private, and topped up by parents. But since these are very far from the official thinking of any big political party, his book is most valuable as a window on state education today for those whose school days are long over. It is a world they will not recognise, one of initiatives, strategies and frameworks, all with multifarious objectives, strands and dimensions. Fatuousness ("every child matters"; "putting the world into world-class education") rubs shoulders with Pollyanna-ish idealism (all young people will be learners who "enjoy learning and are motivated to achieve the best they can now and in the future", and who "are open to the excitement and inspiration offered by the natural world and human achievements", and so on through the 29 grandiose aims of the national curriculum).

This may be Mr Woodhead's last substantial contribution to public debate on education: he was diagnosed

with motor-neurone disease in 2006. His silence will leave England perilously short of people who know enough to comment usefully on state education but have not become inured to its bureaucratic blizzard. Those teachers who cannot bear the verbiage quickly leave the profession; most of those who stay become numb in self-defence. The few who find it congenial progress quickly to senior positions—and train, appoint and manage in their own likeness.

Interview with Chris Woodhead available here

Bagehot

There won't be blood

May 21st 2009
From The Economist print edition

At a time of crisis, why are Britain's politicians so spineless?

Illustration by Steve O'Brien

WESTMINSTER loves the language of gore. People talk of "back-stabbings" and "assassins"; of electoral "massacres"; of paths to power "littered with corpses" and of "bloodbaths" if the powerful are crossed. In this sanguinary lexicon MPs are accounted "brave" and "heroic" for drafting a motion that calls for a parliamentary official to resign, or for writing newspaper articles that are codedly critical of their leaders.

They aren't. It is brave to attend a protest rally in Burma. It is brave to be an independent journalist in Russia. It is brave to be a human-rights monitor in Syria. In Britain heads roll or are impaled on spikes only metaphorically. Only ink actually gets spilt: there will not be blood. The costs of sticking out a neck are pifflingly low. Ordinary Britons might well wonder why in these febrile times so few politicians, whether commanders or foot soldiers, are willing to make a stand.

Consider the three imbroglios that have paralysed politics. First, the fate of the soon to be ex-speaker, Michael Martin. On May 11th he rebuked two MPs who said things he didn't like; attempting, on May 18th, to cling to his canopied chair, he seemed mumblingly ignorant of the procedures he is supposed to oversee. After his failings on MPs' expenses (see article), it was painfully clear that he had to go. And on May 19th Mr Martin announced that he would. Yet only 23 MPs were "brave" enough to sign the "no confidence" motion that exhorted him to.

In fact, some of the reasons offered by those who backed the speaker had merit. Mr Martin did not force those implicated in the expenses debacle to submit dodgy claims. Why should he be sacrificed to camouflage the guilt of others?

Quite so: others should plainly go too. Some MPs worked the expenses system too disreputably to keep their seats or, in some cases, their ministerial jobs or places on the Conservative front bench. Hazel Blears, the communities secretary, who wrote a belated cheque for the amount of capital-gains tax she didn't pay when selling what was once, for expenses purposes, her "second home", is not the only cabinet member in this category. Those top Tories who made lucrative second-home claims on properties in spitting distance of their first homes are similarly bespattered.

Yet, so far, a pair of the most disgraced Labour MPs have been suspended by their parliamentary party and one disposable junior minister has stepped down; on the Tory side, David Cameron jettisoned an

aide, and a few backbenchers who made baronial expenses claims have said they will not stand again. Some have apologised and, like Ms Blears, brandished penitential cheques. But otherwise Gordon Brown and Mr Cameron have hidden behind scrutiny panels and regulatory reforms—classic bureaucratic responses to an essentially moral problem. Mr Brown vowed to prevent anyone who had "defied the rules" from seeking re-election, and called the antics of Ms Blears and others "unacceptable". But neither he nor Mr Cameron has employed the obvious remedy: to sack the egregious offenders and urge specific deselections, or impose them on reluctant constituencies if necessary. And although some activists are calling for a cull, few MPs, even among the clean ones, have joined them.

So to the final intrigue—the revived murmurs among Labour MPs about ditching Mr Brown himself. Before he became prime minister in 2007, few raised a squeal of protest; since then, some have been grumbling almost constantly. The arguments for and against installing another leader voiced during last summer's aborted mutiny are again doing the rounds. Again MPs lament Mr Brown's charmlessness and Labour's likely electoral rout. Again they meekly look to the cabinet to lead a coup.

A time to cull

These different instances of collective timidity have some common explanations. In each case "boldness" has been inhibited by loyalty to friends, qualms about ruining careers and concern about constitutional niceties (it has been one of those weeks when commentators sagely bandy about medieval dates and precedents hastily garnered from Wikipedia).

The main explanation, however, is politicians' self-interest. Backbenchers fear the ghoulish tortures of whips and the lost chance of preferment that rudeness about the prime minister might incur. Some fear that speaking out about the need for expenses-related sackings could set off a wave of retribution that could eventually engulf them too. The party leaders are stalling, reluctant to wield their metaphorical axes until they are sure where the chopping would end. Mr Brown may worry that punishing some MPs will make him still less loved among the rest.

Unfortunately, the politicians' self-interest is unenlightened and myopic. With so little life left in the government, the cost to the careers of Labour mutineers would be nugatory; indeed, their stature might be enhanced if the plot came off. The confrontation between Mr Brown and the malcontents is less like a gunslingers' deadly stand-off than the Monty Python sketch in which two men slap each other with fish. Meanwhile, implementing or supporting tough discipline for the most extravagant expenses artists might indeed lead to awkwardness and perhaps the odd by-election. But through their hesitancy the big parties have been tainted more than they need have been by the chancers they harbour. And they have left a space that insurgent parties and anti-sleaze independents are moving into.

It is hard to avoid the conclusion that too many politicians are immobilised by a mix of inertia and spinelessness. Obstacles that are actually puny to them look Himalayan. To be snubbed in a parliamentary canteen seems as daunting as being put against a bullet-dented wall. Like many cowards, alas, they risk bringing on the fate they most fear.

Economist.com / blogs / bagehot

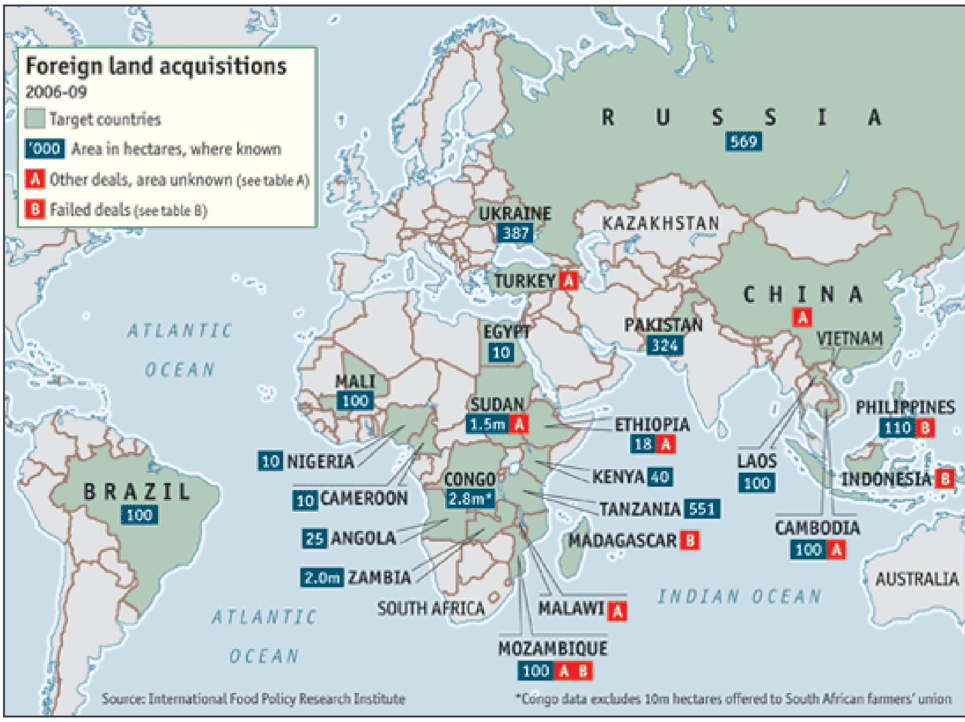
Economist.com WORLD INTERNATIONAL

Buying farmland abroad

Outsourcing's third wave

May 21st 2009
From The Economist print edition

Rich food importers are acquiring vast tracts of poor countries' farmland. Is this beneficial foreign investment or neocolonialism?



A: Other deals (area unknown)

Target	Investor	Deal type/value
Cambodia	Kuwait	Land for rice
China	United States (Goldman Sachs)	$450m-500m, poultry and pigs
Ethiopia	India	$4bn
	UK (Sun Biofuels)	Jatropha
	Saudi investors	$100m
Malawi	Djibouti	unknown
Mozambique	UK (Sun Biofuels)	Jatropha
Sudan	Egypt	Wheat (2m tonnes pa)
	Kuwait	"Giant" strategic partnership
	Qatar	Joint holding firm
Turkey	Bahrain (Agricapital)	$500m (may rise to $3bn-6bn)

B: Failed deals

Target	Investor	Size of deal
Mozambique	China	$800m
Philippines	China	1.24m ha
Indonesia	Saudi Arabia (Saudi Binladin Group)	0.50m ha
Madagascar	South Korea (Daewoo)	1.30m ha

EARLY this year, the king of Saudi Arabia held a ceremony to receive a batch of rice, part of the first crop to be produced under something called the King Abdullah initiative for Saudi agricultural investment abroad. It had been grown in Ethiopia, where a group of Saudi investors is spending $100m to raise wheat, barley and rice on land leased to them by the government. The investors are exempt from tax in the first few years and may export the entire crop back home. Meanwhile, the World Food Programme (WFP) is spending almost the same amount as the investors ($116m) providing 230,000 tonnes of food aid between 2007 and 2011 to the 4.6m Ethiopians it thinks are threatened by hunger and malnutrition.

The Saudi programme is an example of a powerful but contentious trend sweeping the poor world: countries that export capital but import food are outsourcing farm production to countries that need capital but have land to spare. Instead of buying food on world markets, governments and politically influential companies buy or lease farmland abroad, grow the crops there and ship them back.

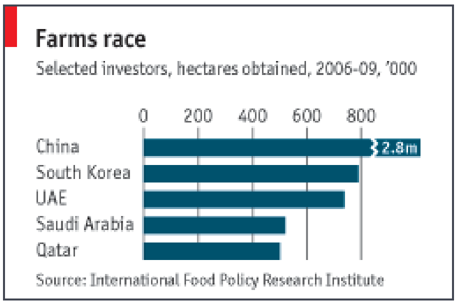
Supporters of such deals argue they provide new seeds, techniques and money for agriculture, the basis of poor countries' economies, which has suffered from disastrous underinvestment for decades. Opponents call the projects "land grabs", claim the farms will be insulated from host countries and argue that poor farmers will be pushed off land they have farmed for generations. What is unquestionable is that the projects are large, risky and controversial. In Madagascar they contributed to the overthrow of a government.

Investment in foreign farms is not new. After the collapse of the Soviet Union in 1991 foreign investors rushed to snap up former state-owned and collective farms. Before that there were famous—indeed notorious—examples of European attempts to set up flagship farms in ex-colonies, such as Britain's ill-fated attempt in the 1940s to turn tracts of southern Tanzania into a limitless peanut prairie (the southern Tanganyika groundnut scheme). The phrase "banana republics" originally referred to servile dictatorships running countries whose economies were dominated by foreign-owned fruit plantations.

But several things about the current fashion are new. One is its scale. A big land deal used to be around 100,000 hectares (240,000 acres). Now the largest ones are many times that. In Sudan alone, South Korea has signed deals for 690,000 hectares, the United Arab Emirates (UAE) for 400,000 hectares and Egypt has secured a similar deal to grow wheat. An official in Sudan says his country will set aside for Arab governments roughly a fifth of the cultivated land in Africa's largest country (traditionally known as the breadbasket of the Arab world).

It is not just Gulf states that are buying up farms. China secured the right to grow palm oil for biofuel on 2.8m hectares of Congo, which would be the world's largest palm-oil plantation. It is negotiating to grow biofuels on 2m hectares in Zambia, a country where Chinese farms are said to produce a quarter of the eggs sold in the capital, Lusaka. According to one estimate, 1m Chinese farm labourers will be working in Africa this year, a number one African leader called "catastrophic".

In total, says the International Food Policy Research Institute (IFPRI), a think-tank in Washington, DC, between 15m and 20m hectares of farmland in poor countries have been subject to transactions or talks involving foreigners since 2006. That is the size of France's agricultural land and a fifth of all the farmland of the European Union. Putting a conservative figure on the land's value, IFPRI calculates that these deals are worth $20 billion-30 billion—at least ten times as much as an emergency package for agriculture recently announced by the World Bank and 15 times more than the American administration's new fund for food security.



If you assume that the land, when developed, will yield roughly two tonnes of grain per hectare (which would be twice the African average but less than that of Europe, America and rich Asia), it would produce 30m-40m tonnes of cereals a year. That is a significant share of the world's cereals trade of roughly 220m tonnes a year and would be more than enough to meet the appetite for grain imports in the Middle East. What is happening, argues Richard Ferguson, an analyst for Nomura Securities, is outsourcing's third great wave, following that of manufacturing in the 1980s and information technology in the 1990s.

Several other features of the process are also new. Unlike older projects, the current ones mostly focus on staples or biofuels—wheat, maize, rice, jatropha. The Egyptian and South Korean projects in Sudan are both for wheat. Libya has leased 100,000 hectares of Mali for rice. By contrast, farming ventures used to be about cash crops (coffee, tea, sugar or bananas).

In the past, foreign farming investment was usually private: private investors bought land from private owners. That process has continued, particularly the snapping up of privatised land in the former Soviet Union. Last year a Swedish company called Alpcot Agro bought 128,000 hectares of Russia; South Korea's Hyundai Heavy Industries paid $6.5m for a majority stake in Khorol Zerno, a company that owns 10,000 hectares of eastern Siberia; Morgan Stanley, an American bank, bought 40,000 hectares of Ukraine in March. And Pava, the first Russian grain processor to be floated, plans to sell 40% of its landowning division to investors in the Gulf, giving them access to 500,000 hectares. Thanks to rising land values and (until recently) rising commodity prices, farming has been one of the few sectors to remain attractive during the credit crunch.

The great government grab

But the majority of the new deals have been government-to-government. The acquirers are foreign regimes or companies closely tied to them, such as sovereign-wealth funds. The sellers are host governments dispensing land they nominally own. Cambodia leased land to Kuwaiti investors last August after mutual prime-ministerial visits. Last year the Sudanese and Qatari governments set up a joint venture to invest in Sudan; the Kuwaiti and Sudanese ministers of finance signed what they called a "giant" strategic partnership for the same purpose. Saudi officials have visited Australia, Brazil, Egypt, Ethiopia, Kazakhstan, the Philippines, South Africa, Sudan, Turkey, Ukraine and Vietnam to talk about land acquisitions. The balance between the state and private sectors is heavily skewed in favour of the state.

That makes the current round of land acquisitions different in kind, as well as scale. When private investors put money into cash crops, they tended to boost world trade and international economic activity. At least in theory, they encourage farmers to switch from growing subsistence rice to harvesting rubber for cash; from growing rubber to working in a tyre factory; and from making tyres to making cars. But now, governments are investing in staple crops in a protectionist impulse to circumvent world markets. Why are they doing this and what are the effects?

AP

But where's it going?

"Food security is not just an issue for Abu Dhabi or the United Arab Emirates," says Eissa Mohamed Al Suwaidi of the Abu Dhabi Fund for Development. "Recently, it has become a hot issue everywhere." He is confirming what everyone knows: the land deals are responses to food-market turmoil.

Between the start of 2007 and the middle of 2008, *The Economist* index of food prices rose 78%; soyabeans and rice both soared more than 130%. Meanwhile, food stocks slumped. In the five largest grain exporters, the ratio of stocks to consumption-plus-exports fell to 11% in 2009, below its ten-year average of over 15%.

It was not just the price rises that rattled food importers. Some of them, especially Arab ones, are oil exporters and their revenues were booming. They could afford higher prices. What they could not afford, though, was the spate of trade bans that grain exporters large and small imposed to keep food prices from rising at home. Ukraine and India banned wheat exports for a while; Argentina increased export taxes sharply. Actions like these raised fears in the Gulf that one day importers might not be able to secure enough supplies at any

price. They persuaded many food-importing countries that they could no longer rely on world food markets for basic supplies.

Panic buying

What to do instead? The obvious answer was: invest in domestic farming and build up your own stocks. Countries that could, did so. Spending on rural infrastructure is the third largest item in China's 4 trillion yuan ($585 billion) economic-stimulus plan. European leaders said high prices showed the protectionist common agricultural policy needed to be preserved.

But the richest oil exporters did not have that option. Saudi Arabia made itself self-sufficient in wheat by lavishing untold quantities of money to create grain fields in the desert. In 2008, however, it abandoned its self-sufficiency programme when it discovered that farmers were burning their way through water—which comes from a non-replenishable aquifer below the Arabian sands—at a catastrophic rate. But if Saudi Arabia was growing more food than it should, and if it did not trust world markets, the only solution was to find farmland abroad. Other Gulf states followed suit. So did China and South Korea, countries not usually associated with water shortages but where agricultural expansion has been draining dry breadbasket areas like the North China Plain.

Water shortages have provided the hidden impulse behind many land deals. Peter Brabeck-Letmathe, the chairman of Nestlé, claims: "The purchases weren't about land, but water. For with the land comes the right to withdraw the water linked to it, in most countries essentially a freebie that increasingly could be the most valuable part of the deal." He calls it "the great water grab".

For the countries seeking land (or water), the attractions are clear. But what of those selling or leasing their resources? They are keen enough, even sending road shows to the Gulf. Sudan is letting investors export 70% of the crop, even though it is the recipient of the largest food-aid operation in the world. Pakistan is offering half a million hectares of land and promising Gulf investors that if they sign up, it will hire a security force of 100,000 to protect the assets. For poor countries land deals offer a chance to reverse decades of underinvestment in agriculture.

In developing countries as a whole, the average growth in cereal yields has fallen from 3-6% a year in the 1960s to 1-2% a year now, says the World Bank. This reflects, among other things, a decline in public investment. In the 14 countries that depend most on farming, public spending on agriculture almost halved as a share of total public spending between 1980 and 2004. Foreign aid to farming also halved in real terms over the same period. Farming has done worst of all in Africa, where most of the largest land deals are taking place. There, agricultural output per farmworker was the lowest in the world during 1980-2004, growing by less than 1% a year, compared with over 3% a year in East Asia and the Middle East.

The investors promise a lot: new seeds, new marketing, better jobs, schools, clinics and roads. An official at Sudan's agriculture ministry said investment in farming in his country by Arab states would rise almost tenfold from $700m in 2007 to a forecast $7.5 billion in 2010. That would be half of all investment in the country, he said. In 2007, agricultural investment had been a mere 3% of the total.

China has set up 11 research stations in Africa to boost yields of staple crops. That is needed: sub-Saharan Africa spends much less than India on agricultural R&D. Even without new seed varieties or fancy drip-feed irrigation, investment should help farmers. One of the biggest constraints on African farming is the inability to borrow money for fertilisers. If new landlords just helped farmers get credit, it would make a big difference.

Yet a certain wariness ought to be maintained. Farming in Africa is hard. It breaks backs and the naive ambitions of outsiders. To judge by the scale of projects so far, the new investors seem to be pinning their hopes on creating technologically sophisticated large farms. These have worked well in Europe and the Americas. Paul Collier of Oxford University says Africa needs them too: "African peasant farming has fallen further and further behind the advancing commercial productivity frontier."

But alas, the record of large farms in Africa has been poor. Those that have done best are now moving away from staple crops to higher-value things such as flowers and fruit. Mechanised farming schemes that grow staples have often ended with abandoned machinery rusting in the returning bush. Moreover, large farmers are often well-connected and spend more time lobbying for special favours than doing the hard work.

Politics of a different sort poses more immediate problems. In Madagascar this year popular hostility to a deal that would have leased 1.3m hectares—half the island's arable land—to Daewoo Logistics, a South Korean company, fanned the flames of opposition and contributed to the president's overthrow. In Zambia, the main opposition leader has come out against China's proposed 2m-hectare biofuels project—and China has threatened to pull out of Zambia if he ever came to power. The chairman of Cambodia's parliamentary foreign-affairs committee complains that no one has any idea what terms are being offered to Kuwait to lease rice paddies.

The head of the UN's Food and Agriculture Organisation, Jacques Diouf, dubs some projects "neocolonialist". Bowing before the wind, a Chinese agriculture-ministry official insists his country is not seeking to buy land abroad, though he adds that "if there are requests, we would like to assist." (On one estimate, China has signed 30 agricultural co-operation deals covering over 2m hectares since 2007.)

EPA


Chinese neocolonialism going down well with Mozambique's elite

Objections to the projects are not simply Luddite. The deals produce losers as well as winners. Host governments usually claim that the land they are offering for sale or lease is vacant or owned by the state. That is not always true. "Empty" land often supports herders who graze animals on it. Land may be formally owned by the state but contain people who have farmed it for generations. Their customary rights are recognised locally, but often not accepted in law, or in the terms of a foreign-investment deal.

So the deals frequently set one group against another in host countries and the question is how those conflicts get resolved. "If you want people to invest in your country, you have to make concessions," says the spokesman for Kenya's president. (He was referring to a deal in which Qatar offered to build a new port in exchange for growing crops in the Tana river delta, something opposed by local farmers and conservationists.) The trouble is that the concessions are frequently one-sided. Customary owners are thrown off land they think of as theirs. Smallholders have their arms twisted to sign away their rights for a pittance.

This is worrying in itself. And it leads to so much local opposition that some deals cannot be implemented. The Saudi Binladin Group put on hold a $4.3 billion project to grow rice on 500,000 hectares of Indonesia. China postponed a 1.2m hectare deal in the Philippines.

Farms control

Joachim von Braun, the head of IFPRI, argues that the best way to resolve the conflicts and create "a win-win" is for foreign investors to sign a code of conduct to improve the terms of the deals for locals. Various international bodies have been working on their versions of such a code, including the African Union, which is due to ratify one at a summit in July.

Good practice would mean respecting customary rights; sharing benefits among locals (ie, not just bringing in your own workers), increasing transparency (current deals are shrouded in secrecy) and abiding by national trade policies (which means not exporting if the host country is suffering a famine). These sound well and good. But Sudan and Ethiopia have famines now: should they be declining to sign land deals altogether? Many of the worst abuses are committed by the foreign investors' local partners: will they be restrained by some international code?

There are plenty of reasons for scepticism about these deals. If they manage to reverse the long decline of farming in poor countries, they will have justified themselves. But like any big farming venture, they will take years to reveal their full impact. For the moment, the right response is to defer judgment and keep a watchful, hopeful but wary eye on their progress.

Small businesses in Europe

Humble but nimble

May 21st 2009 | PARIS AND BERLIN
From The Economist print edition

Europe's smaller firms are coping fairly well with the recession, in spite of their banks' reluctance to increase lending

Illustration by David Simonds

NOT much about Die Königliche Porzellan-Manufaktur, a royal porcelain factory, has changed since it was taken over in 1763 by Frederick the Great. Privatised by the state of Berlin in 2006, the firm still moves to a slow rhythm; it makes its tableware mainly by hand, and each of its painters is trained for three and a half years before starting work. Its products are expensive, at about €80 ($110) for a cup and saucer, and are hardly essential. Yet despite this the firm and its 180 employees are doing well amid the economic crisis. That is partly because customers are still willing to pay for its high-quality products, and partly because the company invested and hired prudently in recent times. "Conditions in our industry have been challenging, so we are well prepared for any downturn," says Christiane von Trotha, the firm's marketing director.

In contrast to the doom and gloom coming from Europe's biggest firms, many small and medium-sized enterprises (SMEs) are cautiously optimistic. The main umbrella organisation for Germany's more than 4m SMEs predicts that its members' sales will contract by only 2% this year. The country's renowned Mittelstand will therefore outperform the economy as a whole, which the government expects to shrink by 6%. A survey last month of 804 French SMEs found that just over half of them expected revenues to either stay flat or increase in 2009. "I was surprised by how good the numbers were," says Jean-François Roubaud, president of a French lobbying group for SMEs, "and the data confirms what I see out in the field."

That is good news for governments, because Europe's SMEs, defined as firms with fewer than 250 employees, collectively employ 88m people and account for two-thirds of private-sector employment. As big companies send jobs overseas in an effort to reduce costs, smaller firms are becoming increasingly important as domestic employers. And although most SMEs are tiny mom-and-pop operations, with little capacity or desire to grow, their number also includes fast-growing, innovative firms which, if properly nourished, could become tomorrow's champions.

To be sure, SMEs are facing tough times. They have fewer assets and smaller cushions of retained earnings than big firms. They often depend on a small number of customers, and they are unable to spread business risk by operating across several product lines and geographies. Along with falling demand, they face an unprecedented shortage of bank credit.

Five weeks ago, for example, Laurent Vronski, managing director of Ervor, a French manufacturer of air compressors, decided to test the loyalty of his banks, HSBC and Société Générale, by asking them for a larger overdraft. Although Ervor has the highest credit rating awarded by the Bank of France for a company of its size and expects the same sales this year as last, Mr Vronski is still waiting for an answer. "I don't like that," he says, "especially since banks wanted us to leverage up to our necks two years ago."

So far, however, it appears that the majority of SMEs are finding ways to cope. In Britain, the number of corporate liquidations jumped to 4,941 in the first quarter of this year, up by 56% compared with the same period a year earlier. Most victims were SMEs. But a recent survey by the Federation of Small Business, which represents the smallest SMEs in Britain, found that 60% of businesses were performing as well as or better than last year.

In Germany the corporate death-toll for January and February was little changed from a year earlier. That is in large part because German domestic consumption is holding up, and SMEs serving the home market are doing relatively well. Exporting firms, by contrast, are in acute pain. Machine-tool manufacturers expect sales to slump by 60%, for example. Even at such firms, however, job losses are expected to be below the national average, because their employees' skills are so valuable. In France the corporate bankruptcy rate jumped by 21% for the first quarter of 2009, but 70% of the failures were at the very tiniest firms with no employees other than their founders, and so have limited impact.

Although SMEs are always more vulnerable to downturns than big firms, argues Ludo Van der Heyden, a professor at INSEAD, a French business school, they are also much better at managing through them. To start with, they are usually more efficient and flexible. They "tend not to make the kind of stupid responses that big companies make, such as cutting costs deeply and indiscriminately, so they recover faster", he says. SMEs are much closer to their customers and there is often more trust between managers and workers, meaning greater labour flexibility. One example is Sonogar 5, a retailer based in Paris which sells fancy multimedia and navigation equipment for cars. Its owner, Hugo Delpierre, has cut his own salary and plans to halve the firm's shop-floor space in central Paris and share with another firm, "in order to survive", he says.

Big companies are of course the main recipients of state aid so far, but small businesses are getting help, too. Governments are ordering banks to lend to them, providing credit guarantees, suspending some tax obligations and forcing public bodies to pay up more quickly. Belgium, France and Italy have taken the hardest line with banks; Belgium and France have both introduced nationwide networks of credit mediators, with powers to intervene with banks on behalf of SMEs, and Italy is monitoring its banks. The mediators can be highly effective, say businesspeople, although most SMEs are too frightened of angering their bankers to use them.

Eyetronics, a 10-year-old Belgian firm which does three-dimensional scanning for Hollywood films and for video games, took seven months to secure financing for its next phase of growth, despite a successful record. It is young, innovative SMEs that are most threatened by the credit crunch and recession and most need government support, argues Reinhilde Veugelers of Bruegel, a think-tank in Brussels, since their products are new and not yet widely accepted. Banks have long been wary of lending to them, preventing most innovators from growing into giants.

Only three firms founded in Europe since 1975 have joined the ranks of the world's 500 biggest listed companies, according to Bruegel, compared with 25 in America and 21 in emerging economies. European countries have particular reason, therefore, to help their most innovative SMEs through the crisis.

GM nears bankruptcy

Chapter 11 beckons

May 21st 2009
From The Economist print edition

The carmaker's bondholders would rather take their chances in court

IT IS all but certain that at the end of the month General Motors will follow Chrysler, its smaller American rival, into applying for Chapter 11 protection, thus triggering the biggest industrial bankruptcy in history. Less than six months ago, before he was ousted by the Treasury's auto task-force, GM's chief executive, Rick Wagoner, said bankruptcy was "not an option" for the world's second-largest car company. Mr Wagoner feared that because of the complexity of its business GM might be left in limbo for years, while customers increasingly shunned the products of a firm with a tarnished reputation and an unknowable future.

But GM's new boss and former chief financial officer, Fritz Henderson, appeared to accept the near-inevitability of bankruptcy when, on April 27th, he offered unsecured bondholders a mere 10% stake in the restructured company in exchange for the $27 billion they have lent GM.

The offer, which was dictated by Steven Rattner, the former private-equity financier appointed by Barack Obama to lead the auto task-force, seemed almost designed to fail. Mr Henderson insisted that for the offer to stand, bondholders representing more than 90% of the debt must accept by the end of May. Worse still, they must do so knowing that compared with the United Auto Workers union and the government itself, they are getting a raw deal. The union, which is owed $20.4 billion in payments to a health-care trust for retired workers, will get $10.2 billion in cash and a stake of nearly 40%. The government, which by some estimates could end up lending GM as much as $50 billion, will get the remaining 50%.

To nobody's surprise, the bondholders are unhappy with their treatment, and appear ready to take their chances in bankruptcy court. About $6 billion worth of the debt is in the hands of tens of thousands of retail investors. Among the 127 banks, hedge funds and mutuals that hold the rest, some are protected from a bankruptcy filing by credit-default swaps, which provide insurance against a default, making bankruptcy preferable to a massive write-down on their investment.

Mr Henderson, for one, seems to be preparing for bankruptcy. On May 15th GM sent letters to 1,100 of its dealers, the bottom 18% in performance terms, telling them that their contracts would not be renewed in October next year (see article). Other than in bankruptcy, it is unlikely that GM could even begin to implement such a plan given the protection dealers enjoy under state franchise laws.

Reuters

Three days earlier, six senior GM executives sold all their shares. Although worth less than $2 each, they would be entirely worthless if GM entered bankruptcy. On May 13th GM announced that it would make its monthly payment to parts suppliers several days early. That was taken as a move to minimise disruption to a supplier base already teetering on the brink of collapse after Chrysler shut down nearly all its production on April 30th.

As with Chrysler, the government and the firm are pinning their hopes on a so-called "prepackaged" bankruptcy process. The plan is for the government to provide debtor-in-possession financing to allow the company to continue its day-to-day operations, but also to have everything in place to allow for a rapid split between a "good" GM, which would acquire all the viable assets, and a "bad" GM into which all the unwanted liabilities, from debt to product-defect and asbestos-damage claims, would be loaded. "Good" GM would emerge after two or three months with a clean capital structure and no burdensome contracts. Creditors and other claimants would be left to haggle, perhaps for years, over whatever of value was left in "bad" GM, such as

unwanted factories or brands such as Saturn and Pontiac.

It sounds great, but there are still things that could go wrong. In the first place, the judge appointed to oversee the bankruptcy must be willing to allow a fast-track sale of the good assets. In Chrysler's case, Judge Arthur Gonzalez has given his blessing to that approach, despite several legal challenges. But GM is a much bigger and more complex case. It has many more factories than Chrysler, nearly four times as many employees and twice as many dealers. Its tentacles extend worldwide. Mr Henderson is desperate to avoid damaging the firm's operations in China, where it sold almost as many cars last month as in America, or its profitable Brazilian unit.


In the same condition

Nor is it clear what impact bankruptcy will have on how customers see GM. As with Chrysler, the government has promised to honour the warranties on new cars until the future is clearer. Service shops are not going to disappear. But if the bankruptcy process hits snags, further damage to buyer confidence will be unavoidable.

David Cole of the Centre for Automotive Research in Michigan thinks that the risks are so great that the government should reconsider the size of its own stake instead of forcing unacceptable terms on GM's bondholders. "It could easily blow up in their faces," he says. "If they let things get away from them and GM cascades downward, it could trigger a depression." But the government's plan is the only game in town. It would be a brave bankruptcy judge who took the decision to liquidate GM and the 250,000 jobs that would disappear with it.

America's carmakers cull dealers

Open season

May 21st 2009 | DETROIT
From The Economist print edition

The firms that sell General Motors' and Chrysler's cars are in the line of fire

JACK FITZGERALD has spent more than half a century selling cars, and the past four decades as a Chrysler dealer outside Washington, DC. Thirty years ago he was a vocal proponent of the carmaker's campaign to secure a package of loan guarantees from Congress. In recent months Mr Fitzgerald had been working his contact list again, trying to drum up support for the latest Chrysler bail-out.

But not any more. On May 14th Mr Fitzgerald was among the 789 Chrysler dealers, a quarter of the total, that the carmaker "extinguished", as he puts it, as part of its move through the Chapter 11 bankruptcy process. The decision had been expected: the firm had been saying it needed to cull its dealers for years.

The same is true of General Motors, which still had nearly 6,000 dealers in America last year, hardly fewer than in the 1960s when it controlled roughly half the domestic market (these days it is struggling to keep its share close to 20%). Just a day after Chrysler's announcement, GM sent letters to 1,100 of its own retailers letting them know their franchise agreements would not be renewed. At least 500 more dealers will be dropped in the months to come as it closes or sells off its Hummer, Saturn, Saab and Pontiac brands. It eventually hopes to get the number down to 3,600.

Why are the companies desperate to reduce their dealer count when they are haemorrhaging sales and market share? Foreign firms such as Toyota have found that they can do a better job with fewer stores. Toyota now outsells Chrysler with barely a third as many showrooms. Its dealers do not have to compete with one another on price. That means they earn better margins which, according to Mark Templin of Lexus (Toyota's luxury brand), they put back into their stores "to deliver a more attractive experience for their customers". The biggest cutbacks by GM and Chrysler are in city centres where many dealers offer overlapping products and services.

It is only thanks to bankruptcy (actual for Chrysler, imminent for GM) that the two carmakers can now overcome onerous state franchise laws that have long frustrated their efforts to modernise the system. Individually and through umbrella organisations, such as the National Automobile Dealers Association, car retailers are some of the country's most effective lobbyists—which is not surprising as they are among the largest state and local taxpayers. In some states, such as Texas, taking away a franchise is virtually impossible, even when a retailer is convicted of fraud. A few years ago GM spent more than a billion dollars to buy out the retailers affected by its decision to eliminate its Oldsmobile brand.

Dealers warn that the cuts could backfire because of the close ties they maintain with their local communities, sponsoring teams in youth leagues and providing cars for 4th of July parades each year. Loyal buyers could shift to foreign brands, suggests Mr Fitzgerald. After losing five Chrysler stores in the Washington area, he will focus on the multiple import franchises he handles at places like the Fitzgerald Auto Mall in North Bethesda, Maryland.

Publishing mergers in China

A new binding

May 21st 2009 | BEIJING
From The Economist print edition

China's book industry gets a rewrite

Reuters

CHINA is one of the world's leading book publishers, measured by quantity, at least. It cranked out more than 80,000 titles in the first half of 2008 alone. Yet the industry is far from vibrant. According to OpenBook, a research firm, 99.5% of titles sell fewer than 5,000 copies.

The futility has not gone unnoticed. Because of its political sensitivity, publishing is one of the last industries in China to undergo a restructuring. But the government now says that it wants to eliminate subsidies (which are presumably large, but undisclosed) to the many lossmaking state-owned publishers. Instead it will force them to merge with the private "culture studios" that produce the majority of books with popular appeal. These are much more commercially successful, but technically illegal.

On April 25th the first of what is expected to be a series of mergers was announced. Beijing Republic Publishing, a culture studio responsible for six of the 30 current bestsellers in China, will be taken over by Jiangsu People's Publishing House, a state-owned firm that has what its new partner does not: the right to publish books. At present, China's 10,000-odd culture studios must team up with one of the 600 companies with state ties to put out books. The latter are the only firms to receive an allocation of serial numbers from the government, without which a book cannot legally be printed.

The state-backed firms concentrate on the duller end of the publishing spectrum: authorised histories, government-approved schoolbooks, manuals and so on. To the extent that they produce books that anyone wants to read, they usually work in conjunction with the culture studios, or, more bluntly, simply sell serial numbers to studios, which do all the work themselves. The price for a serial number, essentially a licence to print, is an estimated $2,000—a hefty sum given the trivial price for most books in China.

If the government dislikes a book, it holds the publishing house that originally received the relevant serial number accountable. The offending firm is fined and has its quota of serial numbers reduced in the future. So lethargic as publishers are about drumming up interesting reading material, they are diligent about withholding numbers to anyone who would put something controversial in print.

As a result no official publishing house would touch a book like the recently released memoirs of former premier Zhao Ziyang, who was deposed after supporting the students in the Tiananmen Square protests, even though it is sure to be a bestseller. Culture studios such as Beijing Republic survive by finding areas pleasing to the public that do not produce angst among officials. It was behind the biggest seller in 2007 and 2008, a book titled "Self-help is Better Than Seeing a Doctor". When it strays into politics, it does so in ways calculated to please officialdom, such as the West-bashing "Unhappy China", a hit published in conjunction with Jiangsu.

At a recent industry forum Liu Binjie, the director of China's General Administration of Press and Publication, the industry regulator, said China would like to see such partnerships between studios and publishers lead to a massive consolidation, leaving half a dozen giant companies capable of spreading Chinese words internationally. Small firms not swept up in the various deals would be able to auction manuscripts. Instead of indirect censorship through publishers, there would be a government clearing house.

The result would be a better organised industry, somewhat similar to what already exists for Chinese films. Production is largely done by government studios, censorship is overt, productions have a global

audience and there is strong consumer demand. However, much of that demand is met not by Chinese films but by black-market consumption of foreign films blocked from entering China legally because of tight controls.

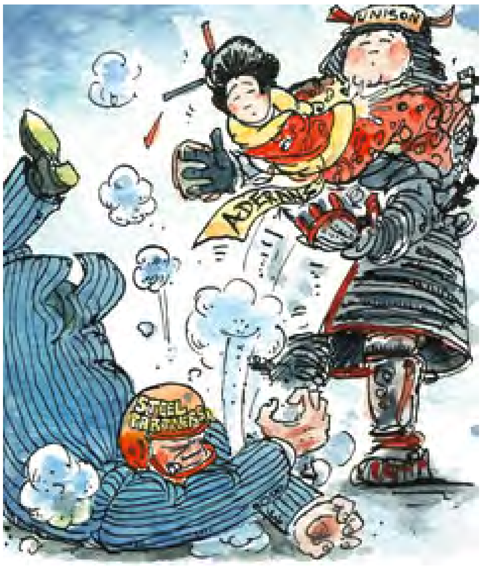
Distribution of that sort has traditionally been more difficult with books, since it is harder to print and disseminate thick wads of paper than it is to burn discs or download video files. But that is changing. Many popular Chinese novels have begun to appear online, where they can be read in their entirety without charge. By the time the government has brought China's existing publishers into line, another chaotic and pervasive shadow industry may already have sprung up.

Showdown

May 21st 2009 | TOKYO
From The Economist print edition

A Japanese firm hugs a local investor to escape a foreign fund's grip

Illustration by David Simonds



ACTIVIST investors rarely bother to target Japanese firms—and are normally sent packing if they do. But Aderans, a loss-making Japanese wigmaker, is having a hard time shrugging off the advances of Steel Partners, an American investment fund which owns 27% of its shares. So it has turned to an unlikely saviour: Unison Capital, a Japanese investment fund, to which it has offered a large stake and effective control. The battle will come to a head on May 28th at Aderans's annual shareholder meeting, at which Steel Partners will launch a proxy fight against the firm's management and its unusual share sale.

Japanese companies are traditionally hostile to outsiders, and Aderans upholds the custom. It has welcomed Unison in the hope that the fund will demand fewer disruptive changes than Steel. In essence, Aderans is racing into the arms of a domestic investor in order to escape a foreign fund's embrace.

Beyond the nationalism—often close to the surface in corporate Japan—the spat is a test of corporate governance and the rights of minority shareholders. Aderans is selling a 7% stake to Unison for ¥1,000 ($10.45) a share, a generous premium based on the firm's average share price over the past three months, but a horrendous discount on the one-year average and far below their net-asset value. Two shareholder-advice firms, RiskMetrics and Glass Lewis, have urged investors to vote against the share sale to Unison and in favour of Steel's nominees to the board.

Unison puts itself forward as a fund in tune with Japanese ways. But it is hardly untainted by barbaric Western ideas about management. Led by John Ehara, Goldman Sachs's first Japanese partner, it is packed with staff who hail from Goldman Sachs and McKinsey, both paragons of Western capitalism. And Unison has not explained how a "Japanese way" of restructuring floundering companies would differ from the usual Western approach: will it lay off fewer superfluous employees; give the firm more time to sort itself out; or accept less profit?

The squabble is seen as a test of Japan's openness to foreign investment. Thanks to the recession, many Japanese firms are being pushed to the brink and will need the help of outsiders to survive. If Aderans's conduct is any guide, they are more likely to turn to Japanese investors than foreign ones. Yet even that, in a way, would be progress.

Saved by the box

May 21st 2009 | NEW YORK
From The Economist print edition

Independent film is thriving on television thanks to video on demand

CANNES was quiet this week. Although the stars and the paparazzi went through the usual red-carpet routine, there was less extravagance and a smaller contingent of film-buyers than usual. Yet for makers of independent films, that was not the end of the world. In their business the action increasingly takes place not on the French Riviera but in American living rooms. Tricky, intelligent films are finding a home in the least glamorous corner of the television business.

Getting independent films into cinemas, never easy, has become much harder in the past year. Some specialist distributors, such as Warner Independent Pictures, have closed and others are buying fewer films. The credit crunch and the strong dollar have cut foreign sales. Meanwhile cheap digital-video cameras and editing software have produced a flood of content. Some 5,500 films are chasing buyers in Cannes this year. Last year just 606 new films were released in American cinemas. Many lost money. “The economics just do not make sense,” says Jonathan Sehring of IFC, an independent distributor.

Hence the rapid growth of an alternative. This year IFC will release about 100 films “on demand”, meaning they can be called up for a fee in most households that get their television via cable or satellite. Many will be available on the same day that they first appear at film festivals such as Sundance and South by Southwest. Later this year IFC plans to launch a new on-demand channel to showcase documentary films. Cinetic, a powerful independent-film broker, will also get into the game this summer. Most radical of all is Magnolia, a distributor which has inverted the traditional release schedule for many films. Next month it will release “The Answer Man”, a comedy starring Jeff Daniels, on cable. The film will only appear in cinemas four weeks later.

The reason for the rush is that, for low-budget films, the economics of video on demand do make sense. Cable companies, which take a cut when they sell a film, help with advertising. Mr Sehring says IFC makes about as much when a film is sold on demand as when a punter buys a cinema ticket, even though the ticket costs almost twice as much. He reckons he recoups his costs and returns money to filmmakers more than half the time—not bad for films that might otherwise have disappeared without trace.

It also makes sense to concentrate on a single marketing push. Heavy advertising helps keep blockbusters in people’s minds. But small, independent films are easily forgotten. Joe Swanberg, a rising star of the “mumblecore” genre (so-called because the actors talk like ordinary people) says it can be frustrating to show a film at a festival and then try to re-create the buzz when it appears in cinemas months later. Eventually he asked himself: “Why are we trying to do this twice?”

EPA

By launching their creations on cable, filmmakers must give up the dream of creating a hugely profitable surprise hit like “Napoleon Dynamite”. Reviewers tend to ignore video-on-demand releases. It was a big deal when the *New York Times* opined on Mr Swanberg’s most recent film, which appeared on cable the same day it screened at South by Southwest. Famous actors and directors distrust a platform that carries only slightly less stigma than a straight-to-video release. Cinemas do not want to touch any film that has appeared on television. (IFC and Magnolia get around this by having their own cinemas.)

Distributors are learning what kinds of films are best suited to video on demand. Eamonn Bowles, Magnolia’s president, says it helps greatly if films are susceptible to brief synopsis. That means well-known names and obedience to genre conventions. Other clear winners are films that have titles starting with the letter “A”, which turn up first on video-on-demand menus. Documentaries may be better suited to the internet, since it caters so well to special-interest groups.

Whether accessed via cable television or the internet, video on demand is likely to grow. America's suburbs are becoming much more diverse places, with more ethnic minorities, more people with degrees and more gays, according to Gary Gates, a demographer at the University of California, Los Angeles. The potential audience for independent films is thus dispersing beyond the places where independent cinemas are concentrated. Not everybody lives near an art-house cinema, but almost everybody has a remote control.

The action is on TV

Muck, brass and spleen

May 21st 2009
From The Economist print edition

An oil giant's shareholders flex their muscles

MOST firms' annual general meetings (AGMs) owe more to North Korea than ancient Greece. By long-standing tradition, bosses make platitudinous speeches, listen to lone dissidents with the air of psychiatric nurses towards patients and wait for their own proposals to be rubber-stamped by the proxy votes of obedient institutional investors. According to Manifest, a shareholder-advice firm, 97% of votes cast across Europe last year backed management.

So should corporate democrats be cheered by the rebellion over pay at Royal Dutch Shell? At the oil giant's AGM on May 19th, 59% of voting shareholders sided against pay packages for top executives. In particular they disliked €4.2m ($5.8m) in shares dished out to five executives, which comprised about 12% of their total pay for 2008. Under the firm's rules, such awards should be granted only if Shell's total return in the year is in the top three of its peer group. In 2007 and 2008, Shell came a very close fourth, so the firm decided to pay out anyway.

Shell is hardly a poster child for malfeasance: it is performing well, its pay is similar to that at other big oil firms and its shareholders previously gave directors discretion to bend the rules. They have used it to cut pay in the past. Still, although the vote is not binding, it is seriously embarrassing. The turnout was decent, at about 50%, and several big fund managers were clearly furious. The payouts have already been made and probably cannot be reversed, but Shell will be in disgrace for a while. Jorma Ollila, its chairman, said he took the vote "very seriously" and promised to "reflect carefully". After GSK, a British drugs firm, had a rebellion on pay in 2003, it completely redrew its pay policy.

It is not just Shell that is facing unrest. Rough markets and a wider political uproar over pay have fuelled discontent across corporate Europe. Almost half of the voting shareholders at BP, another oil giant, failed to support its pay policies in April. At Rio Tinto, a mining firm with a habit of digging holes for itself, a fifth of voting shareholders rejected its remuneration policy. So far this year 15% of votes cast on pay in Britain have dissented, compared with 7% last year. In continental Europe owners are grumpy, too: in February almost a third of voting shareholders at Novartis, a Swiss drugs firm, demanded the right to approve its remuneration policy each year.

But taking bosses to task for their ever-escalating salaries is not a substitute for keen oversight of performance and strategy. At Royal Bank of Scotland, which had to be rescued by taxpayers last year, 90% of voting shareholders rejected its pay policies last month. Yet back in August 2007, 95% of them ticked the box in support of the acquisition of ABN AMRO, the deal that brought the bank to its knees.

Face value

The patient capitalist

May 21st 2009
From The Economist print edition

Jacqueline Novogratz wants to transform the world's approach to development

Magnum Photos

CHAMPIONS of market forces are a glum lot these days, for the most part. But not Jacqueline Novogratz, a market-minded development expert. The current crisis in capitalism, she believes, strengthens her call for a sweeping change in how the world tackles poverty. "The financial system is broken, yes, but so too is the aid system," she observes. In her view, "a moment of great innovation" could be at hand.

In "The Blue Sweater", her recently published autobiography, she describes her past frustrations working in such pillars of finance and development as Chase Manhattan bank, the African Development Bank and the Rockefeller Foundation. She found them bureaucratic, distant and condescending to those they sought to help. So in 2001 she set up Acumen Fund, a "social venture capital" outfit, to promote what she calls "patient capitalism". Acumen is an odd mix of charity and traditional investment fund. It takes donations from philanthropists in the usual fashion, but then invests them in a businesslike way, by lending to or taking stakes in firms. The recipients—private ventures aiming for profits—must serve the poor in a way that brings broader social benefits. Acumen goes to great lengths to measure those benefits, and thus the efficiency of its work.

Acumen's charges are a diverse bunch. In India, Drishtee runs a network of internet kiosks in rural areas, while LifeSpring runs low-cost maternity hospitals. A to Z Textile Mills, a manufacturer of antimalarial bed nets, has grown to become one of Tanzania's largest employers. Some ventures, including a Pakistani mortgage provider and an Indian pharmacy chain, have flopped. But many others manage to repay their loans (granted at below market rates) or generate dividends. Acumen reinvests its profits in other companies, thus stretching the initial donations further.

The notion of applying business methods to philanthropy is attractive, but does it really work in practice? Acumen accepts that the use of performance indicators can provide a false sense of precision. After all, how can one prove beyond doubt that a water filter prevented a child from falling sick? But it is possible to use the results achieved by charities in the same field as a benchmark. Thus Acumen insists that A to Z's bed nets must cost less than the $10 that Malaria No More, a big traditional American charity, says it spends delivering each one it gives away.

Ms Novogratz thinks such measures help guard against the inefficiency and corruption that often afflict traditional aid efforts. On one of her first assignments abroad, she spent countless days poring over the books of a struggling Kenyan microfinance firm. When her findings pointed to mismanagement and cronyism, her detailed handwritten report mysteriously vanished and she was sent packing. She explains that Acumen uses measures, however imperfect, that "take the pulse of the patient" so that necessary

strategic changes can be made on the fly rather than waiting for “a thorough autopsy” when a venture fails.

Such pragmatism is typical of Ms Novogratz. “We’re not fundamentalist about anything,” she says. But it also points to another critique of Acumen. Its improvised approaches, sniff theorists, cannot be scaled up and are therefore not up to the task of tackling global poverty. At first blush there is something to this argument. After all, the fund has barely $35m in investments, a trivial sum compared with the billions of dollars spent by governments or big charities such as the Gates Foundation.

Look closer, though, and there is reason to think that Acumen is punching above its weight. For one thing, its novel approach is fostering a proper debate among development experts about the role of market forces and accountability. Acumen has its admirers at big development agencies. This month Ms Novogratz was invited to address UNICEF, one of the biggest. Her firm runs highly coveted fellowship and mentoring schemes, and its alumni are spreading its ideas throughout the development field. The firm’s influence in poor countries is also bigger than it first appears. By leveraging Acumen’s funds to obtain other financing, recipients are able to magnify their impact. Even more important, perhaps, is the firm’s catalytic role in sparking entrepreneurship in developing countries. Acumen devotes much time and money to training local managers, rotating experts from the developed world through its recipient firms and disseminating successful ideas.

Ms Novogratz hopes all this will help overcome cultural barriers that have held back business in some societies. She recalls how she advised a group of very poor women running a small, unprofitable bakery in Rwanda some years ago. She had to grapple with local social norms, such as the reluctance of its saleswomen to speak to strangers, but she ultimately succeeded in turning the business around.

Open-handed but hard-nosed

When Ms Novogratz returned to Rwanda years later, she discovered that the bakery had been wiped out by the country’s civil strife. Some of the seemingly inhibited women who had worked there had subsequently taken up machetes in the country’s genocide. Such unvarnished experiences of poverty point to the best reason to think Ms Novogratz may yet succeed. Unlike many in the development world, she does not romanticise poverty or patronise the poor. She puts a strong emphasis on consulting and listening to those she seeks to help. Her advocacy of market-based approaches is inspired not by ideology but the firm conviction that markets are the best “listening device” to ascertain the real needs and wants of poor consumers.

Ms Novogratz dismisses those such as Jeffrey Sachs, an influential economist, who think that the bottom billion are too poor to be treated as consumers, and should sometimes receive handouts instead. “When Jeff Sachs says every poor person should receive a free bed net, I agree—but in reality many end up not receiving one,” she says. “And I don’t live in a world of shoulds.”

The outlook for the oil price

Bust and boom

May 21st 2009
From The Economist print edition

The precipitous fall in oil prices over the past year may just be paving the way for another spike

XianPix

RISING oil prices, believes Ali al-Naimi, Saudi Arabia's oil minister, may soon "take the wheels off an already derailed world economy". His Iranian counterpart agrees: "When the global economic crisis comes to an end, and the demand for oil picks up, the oil market could experience another price shock," he says. The boss of Chevron, America's second-biggest oil firm, also worries that "another period of tight supply" is at hand. Britain's energy minister is fearful too. Indeed, at a recent summit of oil grandees convened by the Organisation of the Petroleum Exporting Countries (OPEC) it was hard to find anyone who did not expect a price rise to rival the giddy leap to $147 a barrel last year.

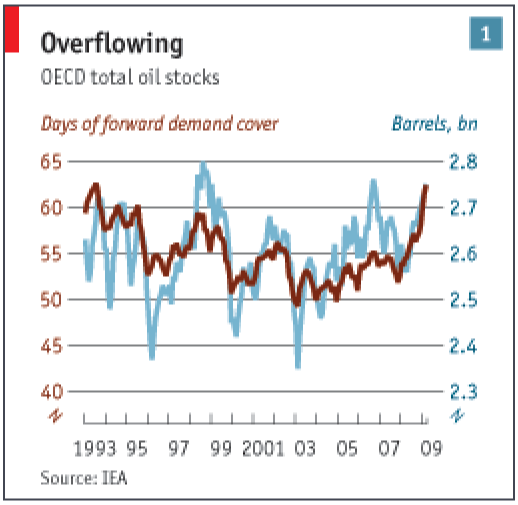
On the face of things, this concern is absurd. The plunge of $115 in the price of oil from its peak last July to its nadir in December was the most precipitous the world has ever seen. Demand for oil is still falling, as the world economy atrophies. The International Energy Agency (IEA), an intergovernmental body which advises rich countries, thinks that global oil consumption will fall by 2.6m barrels a day (b/d) this year, or about 3%. That follows a fall of 200,000 b/d last year. World demand has not shrunk for two years running since the early 1980s.

In recent weeks America's oil inventories have been higher than ever at this time of year, and higher than at any point save September 1990, in the run-up to the first Gulf war. There is little room left to store any more crude, says Jeff Currie of Goldman Sachs. Rumours abound of traders hiring tankers to store their excess oil. Rich countries' stocks cover 62 days' consumption, the most since 1993 (see chart 1). The average over the past five years has been 52 days' worth.

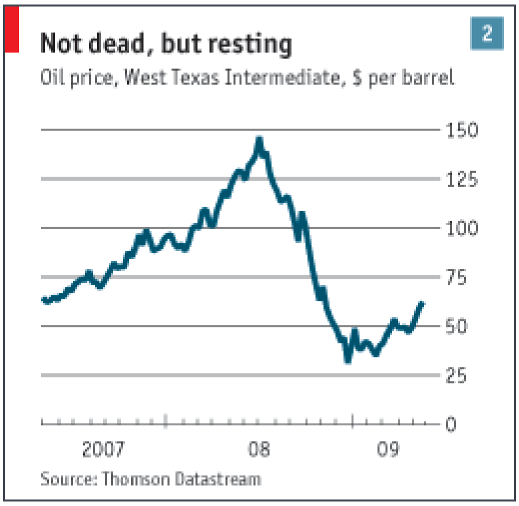
Slack in the system

Meanwhile, oil firms are not pumping nearly as much as they could. OPEC has announced three separate rounds of production cuts since September in a bid to steady prices. In all, it has vowed to trim its output by 4.2m b/d. Analysts reckon its normally ill-disciplined members are indeed pumping some 3.3m b/d less. That leaves them with as much as 6m b/d of spare capacity to bring back into use should demand pick up. Saudi Arabia alone says it could pump 4.5m b/d more than it is now.

Despite this growing glut, however, the price of oil has been rising steadily in recent weeks (see chart 2). On May 20th it closed above $60 a barrel for the first time in more than six months. That marks an increase of more than 75% since February 12th, when it sank below $34—the fourth-biggest three-month rise on record, according to Mr Currie. The price of futures contracts suggests that energy traders see the price rising higher still in the coming months and years.



The explanation is simple. Oilmen are worried because they believe that many of the factors behind the record-breaking ascent last year remain in place. Much of the world's "easy" oil has already been extracted, or is in the hands of nationalist governments that will not allow foreigners to exploit it. That leaves firms to hunt for new reserves in ever more inhospitable and inaccessible places, such as the deep waters off Africa or the frozen oceans of the Arctic. Such fields take a long time and a lot of expensive technology to develop. Worse, new discoveries tend to be smaller than in the past and to run dry faster.



So oil firms must work doubly hard to replace declining fields and to increase output. As Francisco Blanch of Merrill Lynch puts it, they must find another Saudi Arabia's worth of oil every two years just to maintain their production at today's levels. Yet the oil industry is short of equipment and manpower, thanks to decades of underinvestment in the 1980s and 1990s, when prices were low. That left it struggling to expand despite the strong price signal of recent years, and thus poorly positioned to cater to vast new markets in the developing world, including China and India, where oil consumption has been growing fast. At the height of the boom, with the price repeatedly setting records, production outside OPEC even fell.

As soon as the world economy starts growing again, the theory runs, demand for oil will once again outstrip the industry's ability to supply it. The seemingly ample cushion of inventories and spare capacity will quickly be exhausted, sending prices soaring. In other words, the global recession has only interrupted the "supercycle" of which many analysts used to speak, during which the normal boom-and-bust cycle of oil and other commodities would give way to a protracted period of high prices, as ever-growing demand from emerging markets swallowed everything the extractive industries could produce. "The commodity supercycle is not over, just resting," says Mr Blanch.

Clear diagnosis, missing remedy

Oil bosses, OPEC ministers and anxious bankers all agree on what is needed to prevent this scenario becoming reality: lavish investment in the development of new fields and in exploration. Yet the reverse is happening. The oil industry is cutting its spending, bringing fewer new fields into production and exploring less. The IEA reckons that overall investment will drop by 15-20% this year.

The number of drilling rigs in use around the world fell by 32% in the year to April to 2,055, according to Baker Hughes, an oilfield-services firm. In America, where there is a glut of natural gas as well as oil, the number of rigs in use has fallen by over half since its peak last year. OPEC countries, says Abdalla Salem el-Badri, the organisation's secretary-general, are cancelling or delaying 35 big projects. Cambridge Energy Research Associates, a firm of consultants, reckons that 5.5m b/d of additions to capacity will fall by the wayside around the world in the next few years. That amounts to a third of the projected net increase in output by 2014.

In theory, this should not be happening. Big Western oil firms ("majors" in the industry jargon) claim

that they continue to invest steadily throughout the cycle, irrespective of gyrations in price. Big fields, they argue, can take a decade or more to develop, and may then produce oil or gas for several decades more. The price of oil at the time the investment is approved is irrelevant; the important thing is to make sure projects will be profitable across a range of possible future prices. If anything, given that most oilmen expect prices to rise in the medium term, you would expect them to be increasing their investment, to capitalise on the good times to come.

For the most part, the majors are sticking to their strategy. They have all, by and large, continued to invest on a scale similar to that of previous years, despite the huge dent made in their revenues by lower oil prices. Exxon Mobil, the biggest, increased its capital spending by 5% in the first quarter. Royal Dutch Shell and Chevron plan to invest as much this year as they did last: $31 billion and $23 billion respectively. BP plans a slight cut, from $21 billion to less than $20 billion. But BP, like Shell, is taking on more debt in order to preserve both its dividend and its investment plans.

Nonetheless, the extreme volatility of prices over the past year must have made big oil firms more cautious about future investments. Shell, for example, has delayed its expansion plans in Canada's tar sands, a particularly viscous form of oil that requires lots of processing and is therefore less profitable than the conventional sort. Both it and BP are cutting staff. And shareholders will presumably countenance only a certain amount of borrowing before they get cold feet.

Smaller oil companies, meanwhile, do not have nearly the same financial muscle, and so cannot maintain spending at last year's rate. All America's big "independent" firms, meaning those without refining arms, have cut their investments sharply. One, Devon Energy, plans to reduce its capital budget to $4 billion or so this year from $9 billion in 2008. The smaller independents, says Ayman Asfari, the boss of Petrofac, a British-based oilfield-services firm, "have been decimated". On London's Alternative Investment Market, a magnet for speculative ventures in natural resources, oil firms managed to raise just £23.6m ($37m) in the final quarter of last year, compared with £229m in the previous quarter.

A handful of independents, such as Premier Oil, a British company that recently completed a successful rights issue, have sound enough finances to increase their spending. But Premier's boss, Simon Lockett, says it will focus more on completing existing projects and less on exploration. That certainly seems to be the pattern in the North Sea, at least. In the first quarter oil firms drilled the same number of wells to delineate past discoveries as they had a year before, according to Deloitte, an accounting firm. But the number of exploration wells plunged by 78%.

Then there are the state-owned firms in oil-soaked countries. These companies control the overwhelming majority of the world's oil. The better managed and funded of them plan to continue investing despite the downturn. Saudi Aramco, the world's biggest oil producer, recently completed a five-year scheme to expand its production capacity from 10m b/d to 12.5m b/d, at a cost of $70 billion. Over the next five years it is setting aside more than $60 billion for further investments. But it is naturally reluctant to continue to develop new fields when it already has 4.5m b/d of capacity sitting idle.

Petrobras, in which the Brazilian government owns a controlling stake, plans to increase its investment by 55% to $174 billion over the next five years. Its recent offshore discoveries are thought to be among the biggest oilfields ever found. But they lie far underground, below deep waters and a thick, drill-foiling layer of salt. No one yet knows how expensive it will be to develop them or how long it will take, but the huge scale of the investment programme suggests their oil will not come cheap.

Moreover, most state-owned firms do not have nearly as much money to spend. In Russia, the world's second-biggest oil producer, output is falling largely because private capital has been scared off by a series of expropriations, while the state starves the firms it controls of sufficient cash for investment. By the same token, Venezuela's national oil company is so short of money that it has not been paying the oilfield-services firms it uses as subcontractors. When some of them refused to continue working until they had been paid, the government seized their assets.

And most oil-rich states, naturally enough, are happy to see the price rise. Many have become used to bumper revenues in recent years and have struggled to balance their budgets since the price slumped last year. Saudi Arabia's king has indicated that he thinks $75 a barrel would be fair. Iran and Venezuela are much more hawkish. They are unlikely to invest heavily in order to reduce prices.

Similarly, countries that had raised taxes on oil when prices were high, such as Britain and Russia, are now particularly reluctant to reduce their take yet further by lowering them again. Yet their high marginal tax rates are helping to deter investment in new production capacity.

Slow service

Among the first to suffer the consequences of all this are oilfield-services firms. Their predicament gives a sense of the slowdown in the industry. Schlumberger, the biggest, cut its planned investment by 13% this year to $2.6 billion after its profits fell by 30% in the first quarter. It has shed 5,000 jobs this year and plans to eliminate more. Baker Hughes, a rival, has got rid of 3,000. Clients, says Petrofac's Mr Asfari, are trying to secure big reductions in prices.

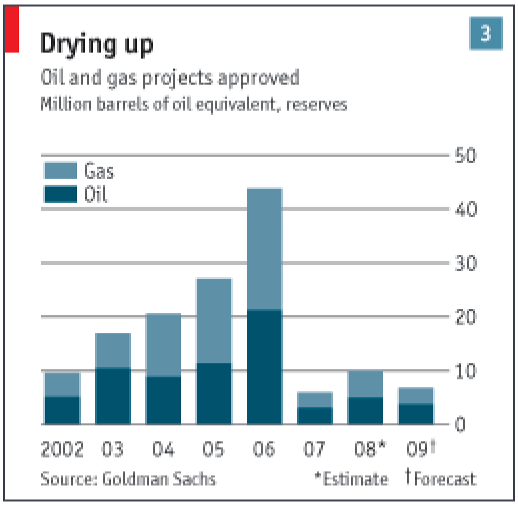
Falling investment does not simply crimp exploration and delay large projects. It can also lead to lower spending on maintenance and thus prompt faster declines in output. The IEA estimates that the output from mature fields outside OPEC would naturally drop by about 11% a year. But through tricks such as injecting water or gas to maintain pressure, oil firms manage to reduce the rate of decline to 7.7%. Lower investment this year, the IEA calculates, is likely to push the rate up to 9.4%. That will reduce world oil output by 110,000 b/d this year, by a further 250,000 b/d next year and, through compounding, by increasing amounts thereafter. Merrill Lynch, meanwhile, thinks the IEA underestimates the likely rate of decline.

Falling costs within the industry will offset the impact of falling investment budgets to some extent. BP argues its slight cut in investment does not really represent a reduction, thanks to deflation. Some prices are plunging: renting a drilling rig in South-East Asia cost $225,000 a day last year but only $160,000 a day in April, according to Mr Lockett of Premier Oil.

Yet many constraints on expansion remain. For one thing, the world still does not have as many experienced petroleum engineers and geologists as it needs, says Iain Manson of Korn/Ferry, a recruiting firm. He expects it to take a decade or more to overcome the shortage. Meanwhile, he says, wages in the oil industry are not falling by nearly as much as other costs.

Worse, there is little sign that governments are willing to grant oil companies easier access to the most promising territory for exploration. Iraq's plans to sign big new contracts with foreign firms are years behind schedule, as is its new oil law. American sanctions continue to impede investment in Iran. The Mexican government did recently broaden the scope for Pemex, the state-owned oil monopoly, to hire foreign contractors. But it abandoned more sweeping plans to allow private investment in exploration and production in the face of strong political opposition. The Nigerian government has been unable to quell the insurgency in the Niger delta, making it difficult for oil firms to operate there. Even in America, despite years of debate, most coastal waters and much of Alaska remain off-limits to drilling.

In short, argues Mr Currie of Goldman Sachs, "above ground" problems such as limited access and rising costs have not gone away, and will continue to limit the growth of the world's oil supply. He points out that even when prices were high, these constraints limited the volume of new projects approved by oil firms (see chart 3). Falling investment will simply compound the shortfall. So when demand begins to revive, a sharp rise in prices is inevitable.



That does not mean that a price spike is just around the corner, however. The speed with which it arrives will depend on the strength of the global recovery. If oil firms run out of storage capacity before demand begins to pick up, says Mr Currie, prices could yet swoon again.

For the moment, global consumption of oil continues to fall, despite the slight brightening of the economic outlook. The latest figures suggest that China's thirst is increasing again. Imports are nearing pre-crisis levels and sales of new cars hit a new record in April. But that will not be enough to reduce global inventories, given that the drop in demand from the rich world is greater than China's total imports.

Ed Morse, of LCM Commodities, a broking firm, points out that after previous price shocks, growth in demand has not usually reverted to previous rates, thanks to efficiency measures taken when prices were high. Moreover, technological advances are allowing oil firms to tap new sorts of resources, including gas trapped in seams of coal and shale, and "sub-salt" oilfields, which are likely to be found off the coast of Angola as well as Brazil.

XianPix

Where are we heading this time?

Furthermore, governments could do various things to dampen the impending rise in prices, argues McKinsey, a consultancy which is also predicting an oil-supply crunch in the next few years. One simple measure would be to allow trucks to pull longer trailers, thereby increasing fuel efficiency. Rich countries could also increase fuel supplies by removing tariffs on imported ethanol, the company argues. Persuading developing countries to drop fuel subsidies would make a big difference. In the longer run, ever more stringent restrictions on carbon emissions and ever higher efficiency standards for vehicles around the world will presumably help crimp demand for oil.

At the OPEC powwow Mr al-Naimi, the Saudi oil minister, argued that a low oil price always sowed the seeds of a future price rise, since it led to underinvestment. The only question this time is how quickly the strain will emerge.

The world's best banks

A short list

May 21st 2009
From The Economist print edition

As the dust starts to settle, which banks deserve the most plaudits?

Illustration by S. Kambayashi

TRYING to work out which banks are the world's best is a bit like awarding the prize for prettiest war-torn village. It is a title that carries little kudos. It is also likely to prompt further shelling. Winners of industry awards in the past three years include Ken Lewis, the chief executive of Bank of America, for banker of the year (2008); Société Générale for its risk management; and Angelo Mozilo of Countrywide, a failed mortgage lender, for a "lifetime of achievement".

Still, the question is becoming more pertinent. After months of indiscriminate fear, widespread losses and government hand-holding, the banking industry is gradually stabilising. Money markets are steadily calming. American banks that got a clean bill of health in this month's stress tests are queuing up to repay government money. A first wave of escapees is likely to include Goldman Sachs, Morgan Stanley and JPMorgan Chase. Those banks that emerge from this crisis with reputations and franchises strengthened will find it increasingly easy to raise funds, win clients, attract employees and buy assets.

Plenty of institutions have come through the crisis relatively unscathed. The Chinese banks now dominate rankings by market capitalisation. Standard Chartered, an emerging-markets lender, seems to be steering a deft course through the downturn in the developing world. Rabobank, a wonderfully dull co-operative bank in the Netherlands, is the only bank that can still boast a AAA rating from Standard & Poor's. Bank of New York Mellon, a large custodian, has won lots of new business from belatedly risk-averse clients. But to win the shiniest medals, you need to have come under fire. In the heat of battle, which banks have come off best?

Working out the answer is trickier than it looks. Independence from the government is one marker of success, yet America's largest banks were given little choice but to take government capital in October. In Europe some avoided state cash by treating existing shareholders badly: witness the money that Barclays hurriedly raised from Middle Eastern investors last year. And lowish credit-default-swap spreads on banks such as Deutsche Bank and Credit Suisse partly reflect the assurance of government help if needed.

Share prices offer another perspective. Every bank investor has been hammered in the past two years, of course, but some have done much better than others. Investors in Citigroup and Royal Bank of Scotland have been all but wiped out. Even the best performing big banks have lost a third of their value in that period. Over a longer time frame, from the start of the bubble to the present, only a handful of the big firms have delivered capital gains for their investors. They include Goldman Sachs, Credit Suisse, BNP Paribas of France and Banco Santander of Spain.

But share prices are also imperfect gauges of bank performance. During the boom investors rewarded growth, whether it was sustainable or not. Banks that avoided the stampede into credit in the go-go years grumble, with some justice, that they were punished for their conservatism. Continuing volatility in share prices partly reflects deep uncertainty over banks' future earnings power.

The league table of industry write-downs and credit losses is another indicator. There is red ink everywhere but some have spilled much more than expected. HSBC has lost $42.2 billion to date, most of it thanks to its disastrous foray into America's subprime-mortgage market. The bank is otherwise well run, with a conservative approach to funding that has served it well, but it has lost more to date than the likes of Royal Bank of Scotland, now largely in the hands of the state, and JPMorgan Chase, which has far more exposure to both America and investment banking. That is hard to forgive.

Success can also be judged by how well banks have positioned themselves for the future. Just surviving has been smart. The likes of Deutsche and Credit Suisse have not needed to do huge deals to produce bumper earnings in the first quarter. But many banks have splashed out during the crisis, with strikingly varied results. Bank of America's purchase of Merrill Lynch and Lloyds TSB's takeover of HBOS have been horror stories. Wells Fargo has done better with its purchase of Wachovia, but decent longer-term prospects cannot obscure the fact that a generous stress-test process still required it to raise more capital. BNP's tortuous capture of Fortis gives it the euro area's biggest deposit-taking franchise. But the dealmaking baubles go to Barclays for its cut-price acquisition of Lehman's North American business; to JPMorgan Chase for its swoops on Bear Stearns and Washington Mutual; and to Santander for emerging from the ABN AMRO transaction, which killed off RBS and Fortis, with a big presence in Brazil at a fair price.

However the pack is shuffled, a few names keep resurfacing—in America, Goldman Sachs and JPMorgan Chase; and in Europe, Credit Suisse, Deutsche, BNP, Barclays and Santander. They can be whittled down further. In Europe, concerns over what lies on the balance-sheets of Deutsche and Barclays are ebbing but are not gone. The British bank's willingness to consider a sale of BGI, its asset-management arm, suggests worries over capital. Both banks still have lots of legacy assets, many of them tucked in the banking book.

Santander should rightfully take its bow alongside its regulators, who closed off the capital benefits of building up big off-balance-sheet positions and required Spanish banks to put aside provisions during the upswing. BNP has played its hand very well, but its business mix (a stable home market and a focus on equity derivatives) helped massively by keeping it away from the worst blow-ups.

In America, Goldman still has legions of admirers. It has posted losses of less than $8 billion to date, a performance not nearly as bad as those of its direct peers. Its focus on risk management is a template for others to follow. But its renewed swagger should not conceal the fact that it needed to convert into a bank-holding company in order to survive the market storm—nor the questions that hang over its future earnings in a re-regulated industry.

That leaves Credit Suisse and JPMorgan Chase to take the grand prizes. Credit Suisse has had its share of mishaps during the crisis but it was quick to scale down its balance-sheet, has plotted a credible strategy for its investment bank and pulled well ahead of UBS, its main rival in wealth management. As for JPMorgan Chase, it has kept a tight rein on risk, managed capital well and acquired sensibly. None of this is much comfort for weary Swiss and American taxpayers, of course. Well-run or not, both banks present the problem of being far too important to fail. And that's to say nothing of the curse of awards.

Economist.com FINANCE & ECONOMICS

Buttonwood

When bulls chase their tails

May 21st 2009
From The Economist print edition

The feedback loops that sustained the bull market can work in reverse to devastating effect

Illustration by S. Kambayashi

BULL markets are about more than just rising prices. They create their own momentum, not to mention their own intellectual rationale (remember the “new era” talk of the late 1990s). When bull markets stop, those effects tend very quickly to go into reverse. The greater the excesses of the boom, the longer and deeper the reaction is likely to be.

The best known of these feedback loops is the use of borrowed money to buy assets. Rising prices make banks more willing to lend, creating more demand for the assets in question, pushing up prices even further and thereby appearing to ratify the original lending decisions of the banks. When markets fall this leverage works the other way, as could be seen when investors offloaded assets at fire-sale prices last year.

There are many other positive-feedback processes. Take share buy-backs, for instance. Companies used their cash (or borrowed money) to reduce their share capital. Markets might have treated this as evidence of a lack of imagination, or a paucity of profitable projects. Instead, they saw it as evidence that the managers were focusing on “shareholder value” and boosting earnings per share, however ephemeral that might have been.

By shrinking the supply of shares in the market, the buy-back splurge played its own part in prolonging the bull market. In America, Smithers & Co, a consultancy, says that net corporate buying of shares peaked at an annualised rate of around $1 trillion in late 2007. Companies were buying far more of their own shares than anyone else did. But the buying spree was unsustainable. Smithers calculates that American-owned companies were paying out some 70% of their profits at the peak, if you include dividends and buy-backs. They have since slashed dividends and will have to start issuing shares as well. Instead of borrowing money to pay back shareholders, companies now need to raise equity to pay back creditors.

The shift in the supply-demand balance is not confined to America. European companies have already raised a total of €56 billion ($76 billion) in rights issues this year, according to dealReporter, an information service. Robert Buckland, a strategist at Citigroup, says that British equity supply was shrinking at 4% per annum in early 2008, and is now growing by a similar amount. That is all down to financial companies, which have had to raise capital to repair their balance-sheets; net issuance from the rest of the market is basically flat.

The recent stockmarket rally has undoubtedly helped companies successfully issue shares. But it will also tempt more businesses to sell equities, putting a potential cap on the rally. As Mr Buckland puts it: “Equity issuance soaks up money that might otherwise have been used to drive the market higher.”

Another positive-feedback loop in bull markets used to be the final-salary pension fund. As share prices rose, pension schemes would move into surplus, allowing sponsoring companies to enjoy contribution holidays. That boosted both their cashflow and their profits, giving a further uplift to share prices. American companies could include an “expected return” from pension assets in their income statements, a return that drifted higher over the life of the bull market.

But a dismal decade for equities and low bond yields have now sent many companies into deficit. In Britain, under the fairly conservative assumptions used by the Pension Protection Fund, private-sector schemes had a deficit of £188 billion ($277 billion) in April. Having an exposure to a final-salary pension scheme is now a drag on a company’s share price, not a boon. BT, for example, is almost having to double its annual pensions contribution to £525m, a move that helped prompt a 59% decline in the British telecoms giant’s annual dividend.

Tax and regulation also work in a buoyant market’s favour. Booms tend to bolster tax revenues and make the government appreciate the virtues of the finance industry; cities compete to attract banks and asset managers by offering tax advantages and minimal regulation. When the bust comes, taxes rise and regulations are tightened. Activity slows and investment is discouraged.

All these effects can take many years to gain momentum, and help explain why bull markets can last much longer than observers expect. By the same token, however, when these processes go into reverse, they can also be self-perpetuating. And that is why there will have to be a lot more evidence than a couple of months of rising share prices before one can say that a new bull market is under way.

Economist.com/blogs/Buttonwood

Japan's woeful GDP figures

That kitchen-sinking feeling

May 21st 2009 | TOKYO
From The Economist print edition

At least things can't get much worse

WHEN companies want to emphasise a turnaround in their prospects they paint the past in a dark light so that the future can only appear brighter. Japan's first-quarter GDP figures also look as though all the bad stuff has been thrown in—except, perhaps, the kitchen sink.

The data, showing a 4% contraction of GDP on a quarterly basis, and a 15.2% annualised slump, reflect a continuation of Japan's worst economic performance since the second world war. Not only were the first-quarter figures bad. The previous quarter's horrendous fall was itself revised downward by more than two percentage points, to an annualised 14.4%.

The collapse of exports was the economy's Achilles heel in the fourth quarter, and exports continued to slide, down 26% in the first quarter compared with the previous three months. But it was the domestic repercussions of this decline that took the biggest toll on GDP in the first quarter. As companies jammed the brakes on expansion plans, capital expenditure fell 10.4%. Amid widespread lay-offs and consumer unease, household spending slid 1.1%. Destocking acted as a further drag, though inventories have further to fall, which does not bode well for the future.

Markets responded with a shrug, however, partly because there are glimmers of a turnaround. Figures on May 19th revealed that industrial production in March rose by 1.6% from a month earlier. Consumer spirits have also improved. The consumer-confidence index jumped to 32.4 in April, having increased every month since December's trough of 26.2. Many economists believe the April-June quarter may produce a small recovery which could gain momentum in the second half of the year. However, the factors supporting it are temporary in nature, and it is far too soon to say that Japan is fully on the mend.

The first pillar of support is government fiscal stimulus, which could amount to about 5% of GDP this year. This may look particularly impressive in the second quarter after a negligible contribution to growth from government spending in the first three months of the year. But it will be short-lived. The second pillar is more technical: as depleted inventories are eventually restocked, production will rise, even if there are few end-buyers for the goods. Exports to China, where the economy may expand by 8% this year (see Economics focus), will provide a fillip.

The trouble is, if the world economy does not rebound strongly it is hard to see where the final demand will come from to stimulate production, exports and investment on a more sustainable basis. Moreover, wholesale prices fell 3.8% in April from a year earlier, their fastest decline in almost 22 years. The risk of deflation is exacerbated by rising unemployment and falling incomes because of less overtime and a huge cut in summer bonuses.

What will drive Japan's long-term economic growth—not least as the population shrinks and ages—is even more uncertain. But in the immediate future, there are enough green shoots to sustain some hopes of a rebound. It is just that, as with rice, they start off underwater.

Credit cards in America

Knocked off balance

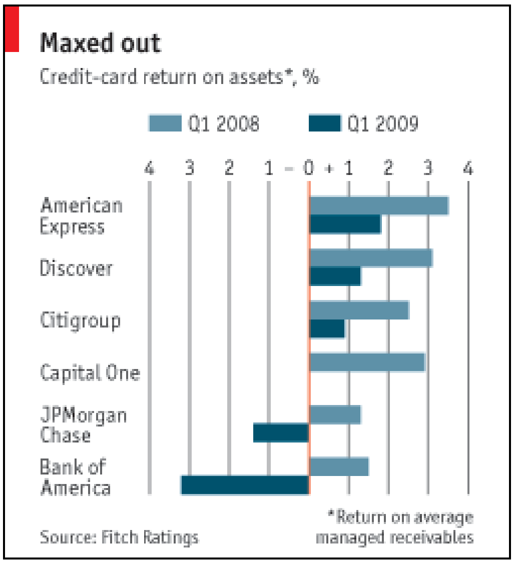
May 21st 2009 | NEW YORK
From The Economist print edition

A once-glittering business loses its shine

CREDIT-CARD borrowers who roll over a portion of their balance each month are known as revolvers. These days lenders are in a spin as they struggle to cope with write-offs, a regulatory crackdown and changes in consumer behaviour.

On May 18th American Express, a credit- and charge-card giant, announced a second round of job cuts (bringing the total to 11,000), slashed its marketing and business-development budgets and offered a "very cautious" outlook. A few days earlier Advanta, a provider of cards to small businesses, froze all existing accounts after charge-offs (uncollectable debt) reached a dizzying 20%. The shutdown sent a shiver through the market for bonds backed by credit-card debt, which is only now starting to recover from the ravaging securitised assets took last year.

The rise in unemployment—which card defaults track and may now be exceeding, given the recession's severity—has spattered a once-profitable business with red ink (see chart). David Robertson of the Nilson Report, a newsletter, expects card write-offs in America to hit $94 billion this year, up from $61 billion in 2008.



As hopes that credit cards would avoid the pain felt in mortgages have dwindled, so has any chance of the industry avoiding a political backlash. This week both houses of Congress voted through a bill that would sharply curtail card issuers' ability to charge punitive fees and raise interest rates. Barack Obama, who has railed against card issuers' "anytime, any-reason rate hikes", was expected to sign it into law after *The Economist* went to press.

Edward Yingling, head of the American Bankers Association, huffed that the bill "fundamentally changes the entire business model of credit cards by restricting the ability to price credit for risk." Some banks will react by reintroducing annual fees that they cut as they jostled for business during the boom, predicts Dennis Moroney of Tower Group, a consultancy.

The industry's claim that the bill will choke off access to credit is a bit rich given its own rush to reduce its unsecured lending. The three largest card issuers—Citigroup, JPMorgan Chase and Bank of America—withdrew credit lines worth $320 billion in the first quarter alone. By the end of 2010, the industry will have cut a staggering $2.7 trillion, forecasts Meredith Whitney, an analyst, triggering an "unprecedented liquidity crunch" that could tip creditworthy consumers into distress.

Card firms face further headwinds. One is the rise of the debit card, which takes payment directly from the customer's current account and is less lucrative for banks than credit, because transaction fees are lower and there is no opportunity to earn interest. This year, for the first time, debit- and prepaid-card spending in America on Visa is expected to overtake purchases on its credit cards (like MasterCard, Visa is a network that processes cards on behalf of banks). Much is spending that would otherwise go on credit cards.

The "interchange" fees that credit-card firms earn from retailers, which have traditionally provided 10% of their revenue, are also under attack. America may yet follow Australia in capping them. Revolution, an upstart, web-based card that charges no interchange fee, is gaining traction.

Little wonder, then, that card issuers feel shell-shocked. Their investors' nerves will be tested, too. The

adverse scenario for card losses envisaged in American banks' stress tests, a cumulative two-year loss rate of 22.5%, looks increasingly like the base case to others. Betsy Graseck of Morgan Stanley expects the big three issuers to post losses in their card businesses this year and next. When they clamber back into profit, they can expect returns on assets of only one-half to two-thirds of pre-crisis levels, she reckons—enough to knock the sturdiest executive off balance.

Monetary union in the Gulf

Disunited Arab Emirates

May 21st 2009
From The Economist print edition

The UAE deals a further blow to hopes of a Middle Eastern Maastricht

FOR two decades the United Arab Emirates (UAE) has supported monetary union in the Gulf. On May 20th it announced it was pulling out of talks but, in typically opaque fashion, gave no reason for the decision. Its withdrawal raises serious questions about the Gulf governments' ability to overcome old political rifts for the sake of economic and financial integration.

Reuters

Many a slip 'twixt cup and lip

Two weeks ago the Gulf rulers, making reference to Maastricht (the Dutch town where the euro was born), decided that the planned central bank would be based in Saudi Arabia. Abu Dhabi appears to have taken this rather personally. A UAE official, interviewed by Reuters, admitted that the decision would weaken the monetary union and said his country would have been the best place for the bank.

No one expected the Gulf states to make rapid progress towards a single currency. The difficulties are legion, not least the problem of generating the political will to defend the central bank against national interests. Indeed, the UAE's announcement is a reminder of how the region remains hostage to arbitrary decision-making from the top. It came just two days after Dubai summarily demoted its well-regarded finance minister, Nasser al-Sheikh, who had been trying to make the emirate's debt situation more transparent.

From a purely economic point of view, the region has already overcome some of the hurdles to a single currency, however. The states of the Gulf Co-operation Council—a club of oil-rich monarchies—already peg their currencies to the dollar, except for Kuwait, which uses a dollar-dominated basket of currencies. (The members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE; Oman had already withdrawn from the monetary-union project.) So they are accustomed to outsourcing their interest-rate policy.

The economies are also relatively similar in structure, though in the short term they face some difficulties in meeting the convergence criteria they have set themselves, which are loosely based on those of the European Union (EU). Inflation rates vary dramatically and fiscal deficits, which have been absent since the start of the oil boom in 2003, are about to re-emerge in some countries this year.

The fact that most Gulf currencies are already, in effect, pegged to each other means the benefits of union are limited compared with those in the EU. Travellers can already use Qatari riyals in a Saudi supermarket, for instance. However, many in the region's financial industry say that a single currency would strengthen economic ties and would help banks develop cross-border products and services.

Moreover, Gulf countries might feel more secure about liberalising and eventually floating a Gulf-wide currency, backed by several countries' reserves. Many economists in the region argue for a more flexible currency system, starting with a Kuwait-style currency basket, so interest rates can reflect the realities of a region with a very different economy from America's.

Despite the UAE's move, the monetary union's remaining backers seem keen to press on. Each of these countries is trying to promote itself as a regional financial centre. Some may quietly exploit the UAE's pullout as ammunition against Dubai's claims in this regard.

Is America still AAA?

Não

May 21st 2009 | SÃO PAULO
From The Economist print edition

Brazil rates America

WHEN Brazil's sovereign bonds were raised to investment grade last year there was much rejoicing, such is the heft of the big credit-rating agencies in emerging markets. Yet somehow the process does not work in reverse, even though there are several independent rating agencies based in the bigger emerging markets that are capable of judging sovereign creditworthiness. This may be about to change. SR Rating, a Brazilian firm, will soon issue a judgment on American government bonds. Its verdict is not pretty: the company says it will issue a AA rating.

Paulo Rabello de Castro, who chairs the ratings committee at SR, describes the decision to rate Uncle Sam as "an outright provocation". Yet he also thinks that firms in emerging markets like Brazil, which are accustomed to instability, might have some advantages when scanning the horizon for danger signs, compared with agencies that operate in the relative calm of Europe or America. "You can be living happily in the belly of a whale and operating with that as your world," says Mr de Castro, "until one day the whale's belly contracts and you discover there is a whole universe of risks out there." Brazilians, he suggests, are specialists in such belly contractions.

Questioning America's long-held AAA rating is not as treasonable now as it once seemed. Moody's has recently raised the alarm about the combined strain that bailing out banks, stimulating the economy, and paying for health care and social security will put on the Treasury. Mr de Castro argues that perfect scores should henceforth be saved for places like Norway that sit on lots of oil, put revenues from its sale into a piggy bank and are unlikely to be invaded by their neighbours. As for the structured products that were mistakenly given AAA ratings over the past few years, he argues that no asset that has been around for less than ten years should be considered worthy of the accolade.

America's bondholders will not be too put out by the verdict of one Brazilian rating agency. Concerns about long-term credit worthiness aired recently by the People's Bank of China are much more likely to trouble them. SR Rating is, however, hoping to build a network of independent agencies in emerging markets that, taken together, would have more clout. They might even help to prevent future contractions.

Economics focus

The art of Chinese massage

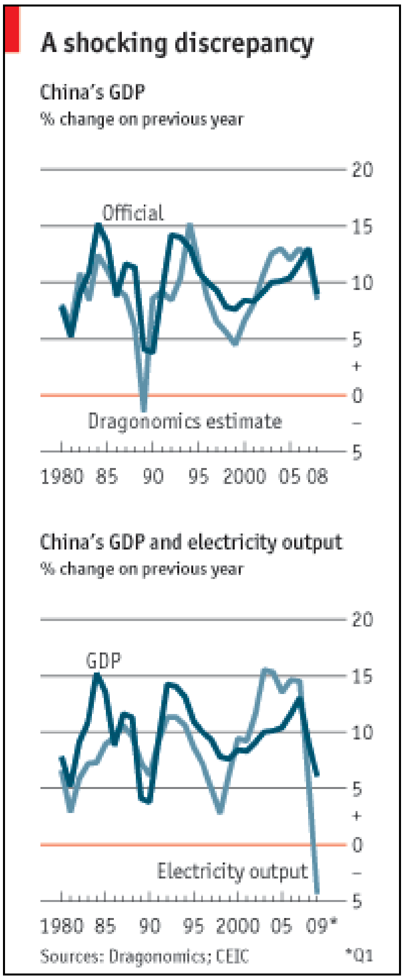
May 21st 2009
From The Economist print edition

Is China overstating its true rate of growth?

PART of the recent optimism in world markets rests on the belief that China's fiscal-stimulus package is boosting its economy and that GDP growth could come close to the government's target of 8% this year. Some economists, however, suspect that the figures overstate the economy's true growth rate and that Beijing would report 8% regardless of the truth. Is China cheating?

Economists have long doubted the credibility of Chinese data and it is widely accepted that GDP growth was overstated during the previous two downturns. In 1998-99, during the Asian financial crisis, China's GDP grew by an average of 7.7%, according to official figures. However, using alternative measures of activity, such as energy production, air travel and imports, Thomas Rawski of the University of Pittsburgh calculated that the growth rate was at best 2%. Other economists reckon that Mr Rawski was too pessimistic. Arthur Kroeber of Dragonomics, a research firm in Beijing, estimates GDP growth was around 5% in 1998-99, for example. The top chart, plotting the official growth rate against estimates by Dragonomics, clearly suggests that some massaging of the government statistics may have gone on. The biggest adjustment seems to have been made in 1989, the year of political protests in Tiananmen Square. Officially, GDP grew by over 4%; Dragonomics reckons it actually declined by 1.5%.

China's growth in the first quarter of this year has led some to conclude that the government is up to the same old tricks. According to official figures, GDP was 6.1% higher than a year earlier. Yet electricity production in the first quarter was 4% lower than it had been a year earlier; in comparison, production grew by 16% in the year to the first quarter of 2008. In the past, GDP and electricity output have moved broadly together, although it is not a one-to-one relationship (see bottom chart). But the gap between the two lines is now wider than it has ever been. Given that power statistics are less likely to have been tampered with than politically sensitive GDP figures, is this evidence that the latter have been fiddled?



Probably not. Paul Cavey, an economist at Macquarie Securities, argues that the discrepancy is explained by the fact that energy-guzzling heavy industries, such as steel and aluminium, bore the brunt of the slowdown last year. Mr Cavey calculates that the metals industry accounted for 40% of the growth in electricity consumption in 2001-07, but only 16% of the increase in industrial production. Steel output fell by more than 10% in the year to the fourth quarter, so it is hardly surprising that energy use dropped.

Distrust of the GDP numbers has prompted Capital Economics, a research firm based in London, to create its own proxy of economic activity, which includes electricity output, domestic freight volumes, cargo traffic at ports, passenger transport and floor area under construction. It suggests that GDP growth slowed to only 4% in the year to the first quarter. However, it tracks mostly industrial activity, and thus excludes two-fifths of the economy, most notably services, which are growing faster.

Then there are government tax revenues. These have fallen by 10% over the past year, compared with a surge of 35% in early 2008, suggesting that incomes and output have tumbled. But Stephen Green, an economist at Standard Chartered, says that revenues were inflated in early 2008 by a sharp rise in taxes from the boom in land sales, which has since subsided. Another possible distortion is that local officials may be hiding tax revenue to make their finances appear worse, in order to get more money from Beijing to

finance infrastructure projects.

Overall, Dragonomics's Mr Kroeber thinks that GDP growth in the year to the first quarter of 2009 was not significantly overstated. One reason why others are more suspicious is the fact that the National Bureau of Statistics (NBS) does not publish quarterly GDP figures as developed economies do; its year-on-year changes give it more scope to smooth growth rates (for example, output probably did stall over the past two quarters). To be fair, many developing countries do this as well. One reason is that seasonal adjustment is tricky in such countries where the shift from agriculture to industry changes the pattern of seasonality over time, says Mr Kroeber.

Cutting the fudge

And for all today's misgivings, Beijing's growth estimates consistently proved to be too low until recently. One of the quirks of Chinese data has long been that the provinces reported higher numbers than the central government did—a phenomenon that was put down to the fact that local officials inflated growth rates in order to get promoted. Yet the NBS GDP figures have almost always been revised upwards. For example, growth in 2007 was first reported as 11.4%, but in January it was marked up to 13%.

The NBS has improved its data-gathering methods in recent years, by extending its coverage of services, for example. This month Beijing also introduced new penalties for officials who falsify statistics. But the real test is whether the government itself is prepared to publish politically embarrassing bad news. There are encouraging signs that it is becoming more open. On May 14th an essay on the NBS website by Xu Xianchun, the bureau's deputy director, was surprisingly frank about some of the flaws in Chinese statistics. Mr Xu admitted, for example, that the retail-sales numbers include some purchases by companies and the government, which should not be counted as consumption. He estimated that consumer spending in the first quarter grew by 9%, compared with the 15% increase reported for retail sales.

Andy Rothman, an economist at CLSA, a regional broker, believes that Chinese statistics are much more trustworthy than they used to be. This is partly because there are alternative numbers to go on; CLSA, for example, produces its own purchasing-managers' index. There are also more private-sector economists keeping tabs on China than there were a decade ago. The more eyes there are on China, and the more crucial its economic performance becomes for the rest of the world, the harder it is for officials to tamper with the speedometer.

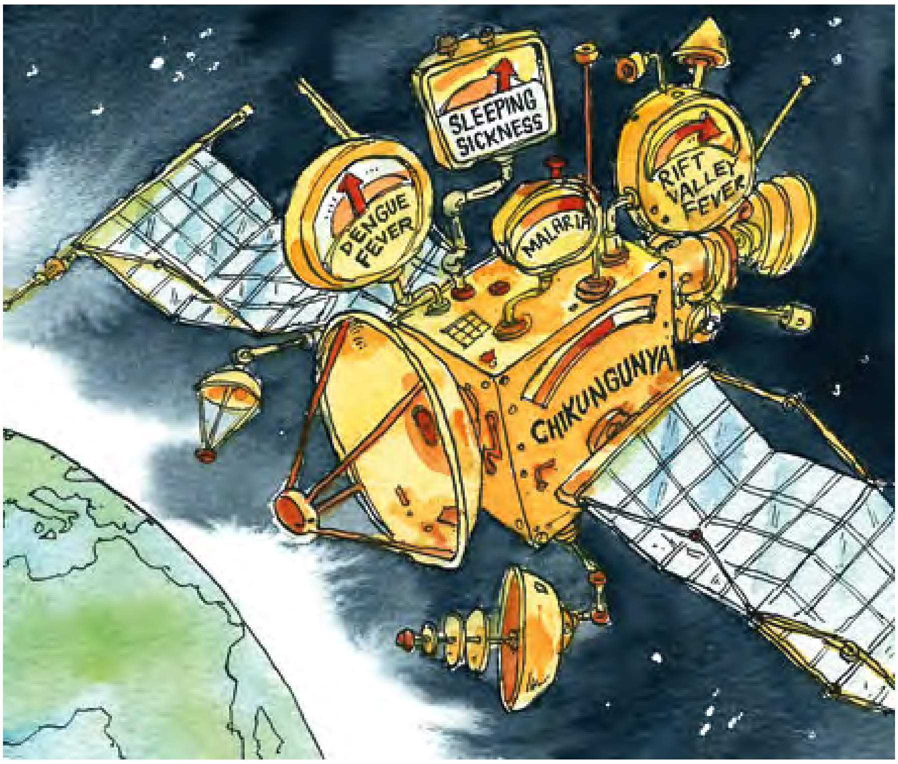
Satellites and global health

Remote diagnosis

May 21st 2009
From The Economist print edition

Satellite data can suggest when and where epidemics will strike next

Illustration by David Simonds



IN DECEMBER 1997 large numbers of cattle, goats and sheep began dying in the Garissa district of north-eastern Kenya. A month later people started dying, too. It was, at the time, the biggest recorded outbreak of Rift Valley fever in east Africa. Some 100,000 stock animals succumbed and about 90,000 people were infected—hundreds fatally—in five countries.

In December 2007 the same thing happened. Or, rather, it started to happen but was stopped in its tracks. The difference was that the second time around there was warning. In September researchers at the Goddard Space Flight Centre in Greenbelt, Maryland, part of America's space agency, NASA, told the authorities in Kenya that they had a problem. They told them again in October. And again in November. By the time the epidemic emerged, the Kenyan health ministry had dispatched teams to the area to distribute mosquito nets and urge village leaders and religious authorities to stop people slaughtering and eating animals. Though the outbreak still killed 300 people in Kenya, Somalia and Tanzania, it could have been a lot worse. According to Kenneth Linthicum of America's Department of Agriculture, the number of deaths would probably have been more than twice as high without the warning.

The warning itself was possible because of a model of how disease spreads that Dr Linthicum helped design. And the data that were plugged into that model came from satellites.

What the researchers at Goddard had noticed at the time of the first outbreak was that in the months preceding it, surface temperatures in the equatorial part of the Indian Ocean had risen by half a degree. These higher temperatures brought heavy and sustained rains, cloud cover and warmer air to much of the Horn of Africa. Mosquitoes multiplied wildly—and lived long enough for the virus that causes the fever to develop to the point where it is easily transmissible. In September 2007 the researchers saw the same thing happening in the ocean, and suspected the same consequences would follow.

Vein hopes

Attempts to foresee epidemics such as these have traditionally relied on fieldwork on the ground. This is often slow and expensive. Crunching data from satellites is much less costly. Satellites transmit copious information on temperatures, precipitation, vegetation cover and even the health, moisture content and chlorophyll-production of plants.

As David Rogers, an expert in ecology and disease at Oxford University, observes, this is an enormously useful combination of variables. His research has linked levels of photosynthesis, detected from satellites, to the size of a vein in the wings of west African tsetse flies. This vein-measurement indicates the health and size of fly populations—and suggests the likelihood of epidemics of sleeping sickness, a tsetse-borne parasitic disease that kills tens of thousands of Africans a year. That means satellite data can be used to predict epidemics without having to collect any flies on the ground.

Jacques-André Ndione, a researcher at the Centre de Suivi Ecologique, a government public-health agency in Dakar, Senegal, is also impressed by the power of satellite monitoring. He cites one study which showed that in west Africa malaria tends to spread faster in suburban neighbourhoods than in cities and slums. The reason, revealed by satellite, is that the suburbs have more backyard ponds and puddles. Indeed, satellites can not only count such small bodies of water, they can measure their longevity, salinity and mud content—and thus how mosquito-friendly they are.

And it is not only Africa that is benefiting. Satellite research indicates a “significant risk” that dengue fever, malaria and Rift Valley fever will enter Europe, according to Renaud Lancelot, the head of the EDEN project, a group of laboratories and public-health agencies in 24 European and African countries. Indeed, chikungunya, a mosquito-borne virus endemic to tropical Africa and Asia, has already arrived in Albania and Italy. A harbinger of things to come, perhaps?

Animal personalities

Unnatural selection

May 21st 2009
From The Economist print edition

Animals have personalities, too. That may be biasing studies of them

THAT people have personalities goes without saying. There are the shy, the cruel, the kind, the sceptical. Pet owners will quickly argue that their animals have personalities too. It is hardly uncommon to hear a dog described as friendly or inquisitive, and scientific research has confirmed that dogs do indeed have personality traits similar to those found in people. In dogs, for instance, these are usually referred to as energy-level, affection-aggression, anxiety-calmness and intelligence-stupidity; in people they are extroversion, agreeableness, neuroticism, openness to experience and conscientiousness.

Yet in spite of all this, rather little has been done to find out if such characteristics exist in wild animals. One such study, published recently in *Animal Behaviour*, shows not only that some do, but also that the presence of such traits is skewing the way data are collected by researchers.

The animals in question are birds—collared flycatchers, to be specific. László Garamszegi, who was at the University of Antwerp at the time of the study (he is now at Doñana Biological Station in Spain), and a team of his colleagues monitored the courtship behaviour of this species. The 41 males observed were nesting in boxes long used by the species, and a single attractive female was placed in an enclosure on top of each box.

First, the team measured the varying intensity of the courtship behaviours displayed by the 33 males that responded to the caged female. After they had collected enough data to act as a baseline, they then attached a white piece of paper to each of the boxes used by these males and watched how the males in question responded to this novelty. They found that roughly half seemed afraid of the paper and reduced their courtship of the female. The other half ignored the paper and continued displaying as they had done before.

In the third phase of the experiment a male was placed in the cage over the box where the female had once been, and the amount of aggression towards this male from the nesting male was measured. In general, those males who had been undeterred by the presence of the paper attacked the newly presented competitor with vigour while those who had been intimidated by it seemed reluctant to attack the putative competitor if, indeed, they attacked him at all.

Another part of the study analysed male willingness to fight in the presence of potential predators, by watching aggressive interactions between nesting males and caged competitors when an unfamiliar human slowly approached the site. Those males who had been afraid of the paper often fled when the human was as much as 20 metres away. Those who had continued their courtship in the presence of the paper again proved their courage and often kept fighting until the observing human was just two metres away.

Lastly Dr Garamszegi and his team placed traps within the nesting boxes and monitored which birds were caught. They found that the aggressive, risk-taking males were twice as likely as non-risk-takers to be trapped.

These results are both interesting and worrying. They are interesting because this is the first time that differences in personality have been shown in wild birds. If birds, as well as mammals, have personalities, it may make it easier to study the evolutionary pressures that give rise to such systematically different ways of behaving within a single species.

The results are worrying, however, because ecologists conduct thousands of studies each year that involve analysing animals caught in traps. These analyses are based on the assumption that the animals collected represent a randomly selected and thus representative sample of the population. Yet among collared flycatchers this does not appear to be the case. Instead it looks as if such trapping studies are selecting the bravest individuals. If that is true more widely, decades of ecological research will have to be re-

examined. For this is one case where fortune most definitely does not favour the bold.

Thaliaceans and the carbon cycle

The jelly cycle

May 21st 2009
From The Economist print edition

A hitherto unknown way of burying carbon at the bottom of the sea

Corbis

Swim or sink

IN 2006 Mario Lebrato and Daniel Jones of the National Oceanography Centre in Southampton, England, were using a remotely operated deep-sea vehicle to study the sea floor near an oil pipeline off Côte d'Ivoire. What they found surprised them. It was a thaliacean graveyard. And its discovery throws into question the received wisdom about one important aspect of climate change, namely how much carbon from the atmosphere ends up at the bottom of the sea.

Despite their unfamiliarity to most people, thaliaceans (a colony of which is pictured) are abundant creatures in many parts of the ocean. Their bodies are transparent and gelatinous, like those of jellyfish. They are not jellyfish, though. They are actually chordates—in other words, part of the same group of animals as humans, even though they do not have backbones. The thaliacean graveyard off Côte d'Ivoire came as a surprise because not much was known at the time about what happens to animals with gelatinous bodies, whether chordates or jellyfish, after they have died. And it set Mr Lebrato and Dr Jones thinking, because if thaliaceans are falling to the bottom of the sea in large numbers, they might be taking a lot of carbon with them.

Until then gelatinous animals had largely been ignored by researchers studying the carbon cycle (the way that element moves through land, sea, air and living creatures) because gelatinous bodies were thought to contain a lot of water and thus relatively little carbon. However, as Mr Lebrato and Dr Jones report in *Limnology and Oceanography*, when they analysed thaliacean tissues they found that the creatures were one-third carbon by weight. That was much more than they expected. Jellyfish, by comparison, are 10% carbon, and diatoms (single-celled algae that are common in plankton) 20%. It also helps explain why thaliaceans are so dense—and thus sink so quickly after they die.

Hitherto it was assumed that the main way carbon gets from the top to the bottom of the ocean was as part of dead planktonic algae sinking to the seabed. But the discovery of just how carbon-rich and prone to sinking thaliaceans are may change that assumption. Because they gather by the billion in feeding swarms around the world (they eat single-celled algae), the amount of carbon thaliaceans are taking to the bottom of the sea is by no means trivial, according to Mr Lebrato. He admits it is difficult to make accurate comparisons, because the research is still in its infancy. But he estimates that the "jelly pump", as he refers to it, sinks almost twice as much carbon as algae do.

The question is, does that carbon stay down once it has arrived? That is unclear. The one sure way of keeping carbon on the seabed is in the form of calcium carbonate, the main ingredient of most animal shells. But thaliaceans have no shells. Nevertheless, some thaliaceans get buried before they have completely decomposed, and other researchers have found evidence that dead jellyfish sometimes accumulate in trenches without much decomposition, so perhaps thaliaceans do, too.

Even if the carbon is not permanently buried, the lack of mixing between deep and shallow water in the ocean means that it is likely to stay down there for a long time—something that will have to be added to computer models of how the climate works. The carbon cycle has thus acquired another epicycle, and become even more complicated to understand than it was.

An early primate

Ida-olatry

May 21st 2009
From The Economist print edition

The discovery of a distant relative

Corbis

Palaeontology, it seems, is becoming part of show business. This skeleton, over half a metre long, of a newly classified 47m-year-old primate called *Darwinius masillae*, was found at the Messel pit, a famous fossil site near Darmstadt, Germany. It is described this week in *Public Library of Science One*, an online scientific journal. The paper, by Jens Franzen of the Senckenburg Research Institute in Frankfurt and his colleagues, is the usual, measured analysis expected of such work. Its publication, however, has been coordinated with a television programme and a book, both called "The Link". The excitement is not so much that the specimen, nicknamed Ida, is so well preserved (it even contains remnants of the animal's last meal of fruit and leaves). Rather, it is because it is probably an early member of the line that led to humans, via monkeys and apes, as opposed to the one that led to lemurs and lorises. It has also had what might be described as a curious history, having been extracted originally by private collectors about 26 years ago and sold two years ago to the Natural History Museum in Oslo, in a deal arranged in a bar in Hamburg. Indiana Jones would have been proud.

Eczema's link to asthma

Breathe easy

May 21st 2009
From The Economist print edition

Researchers discover how a skin disease may trigger a lung complaint

ONE of the prices humanity seems to pay for getting richer is the rise of asthma. This life-threatening, allergy-driven lung disease is common in wealthy countries, absent from poor ones and on the rise in those making the transition. But exactly what causes it is unknown.

A number of explanations have been proposed. These range from the idea that clean modern living makes the immune system over-reactive to random allergens to the thought that chemicals in swimming pools are responsible. What these ideas have in common is the suggestion that some environmental change which accompanies economic development is the cause. A group of researchers led by Shadmehr Demehri of Washington University, in St Louis, believe these explanations are looking in the wrong place. Asthma is not, they think, caused directly by environmental factors. Rather, the link is indirect. The direct cause is a chemical distress signal produced in skin that is damaged by another hazard of modern life: eczema.

Eczema is also on the rise in the industrialised world, in the same sorts of countries where asthma is a problem. Unlike asthma it is not dangerous, so people rarely worry about it. Nevertheless, 17% of children in America have it, and similarly high figures are found in Australia, Britain and New Zealand. What is particularly intriguing is that many people with eczema go on to develop asthma (in America the figure is 70%). That compares with an asthma prevalence of 4-8% in the general population. As they describe in *Public Library of Science Biology*, Dr Demehri and his colleagues now believe they know what causes this link.

The culprit is thymic stromal lymphopoietin (TSLP), a signalling molecule secreted by damaged skin cells which elicits a strong immune response from the body to fight off invaders. Dr Demehri and his team hypothesised that eczema-induced TSLP enters the bloodstream and, when it arrives at the lungs, sensitises them so that they react to allergens that would not previously have bothered them. In other words, they become asthmatic.

They tested their hypothesis in a series of experiments on mice. First, using genetic engineering, they created mice prone to the kind of skin defects found in eczema. These mice were, as they hoped, susceptible to asthma. Then they used additional engineering to delete the gene for the receptor molecule which picks up TSLP in the lungs. These mice no longer developed asthma. Thirdly, they engineered mice to produce high levels of TSLP in their skin in the absence of other skin problems. These mice also developed asthma.

Taken together these experiments indicate—at least in mice—that skin damage creates susceptibility to asthma by releasing TSLP. If that proves true in people, too, it suggests several ways asthma might be prevented. One is to take eczema seriously, and treat it early. The usual treatment is to apply steroids to the damaged skin, but there is evidence that some parents reject this treatment for their children. If a link between eczema and asthma were properly established, that reluctance would probably diminish. In the longer term, it might be possible to devise drugs that inhibit the production of TSLP or interfere with TSLP-receptor molecules in the lungs. Better still, though, would be to work out what aspect of modern life causes eczema.

One possible culprit related both to cleanliness and bathing is the widespread use of detergents. By degreasing the skin, modern detergents might lead to infection and inflammation. At the moment, that idea is just speculation. But the question is an itch that certainly needs a scratch.

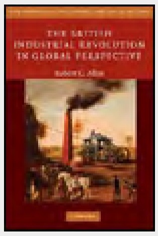
The industrial revolution

Supply and demand

May 21st 2009
From The Economist print edition

Why Britain got there first

The British Industrial Revolution in Global Perspective
By Robert C. Allen



Cambridge University Press; 334 pages; $85 and £45 (hardback); $27.99 and £16.99 (paperback)

Bridgeman Art Library

JUST why the industrial revolution took place in Britain is a puzzle that arouses fierce emotions among social scientists. François Crouzet, a French historian, calls the search for an explanation "somehow akin to the quest for the Holy Grail". Was it because capitalism was further along in Britain than in, say, France, the Netherlands or indeed China? Because Britain's constitutional monarchy after 1688 minimised the intervention of the state and entrenched property rights? Because the British were better at science, or culturally more attuned to technology? Or did dumb luck drop the first spinning jenny on Lancashire rather than Lyon?

This debate matters, for the industrial revolution is quite probably the most important economic development of the past 500 years. It produced not a once-only step-up in productivity but a century-and-a-half of industrial expansion and continuing innovation that transformed lives everywhere. What is

more, it stemmed from the globalisation of the early-modern period (Tudors, and all that) and gave rise to more. With global crisis raging anew, readers could do worse than ponder that long-ago upheaval.

Robert Allen’s analysis will delight many economists, for he deals in measurable factors such as wages and prices. An American professor of economic history at Oxford University and long a writer in this field, he suggests that most explanations for Britain’s industrial revolution focus too much on supply—of inquiring scientists, landless workers, helpful laws. These conditions were conducive to a great leap forward but not sufficient. Nor were they exclusive to Britain. Property rights were arguably more secure in France; much of the science behind the steam engine took place in Italy and Germany; the Dutch were highly urbanised. The industrial revolution occurred in Britain in the 18th and early 19th centuries for one overwhelming reason, he argues: it was profitable there and then. It met a demand.

By the early 1700s Britain was a country of conspicuously high wages and cheap energy (coal). The great inventions of that century—the steam engine, mechanical spinning, smelting iron with coke—all served to economise on the expensive factor of production and use more of the cheaper one. Other countries were slow to follow suit not because they were stupid, sluggish or repressed, but because they did not have that particular combination of expensive labour and inexpensive energy.

Britain lost its competitive edge when, in making its machines more efficient, it reduced their consumption of energy: steam engines went from using 45 pounds (20.4kg) of coal to produce one horsepower-hour to just two. That made these machines cost-effective for countries with dearer energy. “The genius of British engineering undid Britain’s comparative advantage,” Mr Allen writes.

But why did Britain have such high wages and cheap energy in the first place? Pick up most stones in Mr Allen’s analysis and trade lurks somewhere underneath. The Black Death raised the price of labour and boosted trade, for English sheep grew longer fleeces as they grazed fields newly left fallow, and local cloth improved. As Britain traded more, extending its reach to the Americas and Asia, London, then other cities, expanded. Agriculture became more productive. Between 1500 and 1800 England shifted people out of farming faster than any other big European country. The coal that Britain was lucky enough to have was mined in growing quantities to fuel city dwellings. By 1800 Britain was producing “the vast preponderance” of the world’s coal, and it was cheap.

Thanks to trade, wages stayed high although the population grew. Education improved (though the Dutch still had a higher literacy rate in 1800). So did diet, permitting people to work longer and harder. And trade gave them a reason to, bringing in exotic products that well-paid workers could aspire to. This “industrious revolution” made possible the industrial revolution—but what was the actual spark?

France and Germany were hardly inspiration-free zones, but only in Britain was there enough profit to be had from radically realigning the factors of production to make macro-inventions worth investing in. Less theoretically, the pre-existence of two industries also helped. Steam engines were originally designed to pump water out of the pits and railways to move coal around them. The watchmakers of southern Lancashire proved an unequalled source of high-quality, low-cost gears.

This is a beautifully written book, the language as clear as a brook and with the same tumbling energy. One occasionally yearns for more. Finance gets rather short shrift: Britain had a thriving capital market and presumably this added to its edge in industrialising. Policies limiting rivals’ access to British colonies, and industrial exports from those colonies, might also be worth more attention.

But today, when governments from America to Japan are reinventing industrial policy with each off-the-cuff bail-out, this study offers some useful reminders. One is that innovation is most likely to occur where there is market demand for it. Another is that patents can delay innovation as well as stimulate it. A third is that the benefits of trade cannot be overestimated. Not that that needs repeating.

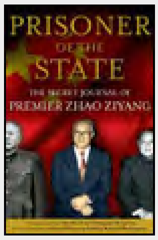
The British Industrial Revolution in Global Perspective.
By Robert C. Allen.
Cambridge University Press; 334 pages; $85 and £45 (hardback); $27.99 and £16.99 (paperback)

The secret journal of Zhao Ziyang

Chinese whispers

May 21st 2009
From The Economist print edition

Prisoner of the State: The Secret Journal of Premier Zhao Ziyang
By Translated, edited by Bao Pu, Renee Chiang and Adi Ignatius



Simon & Schuster; 336 pages; $26

Buy it at
Amazon.com

THE plaintive final public appearance of Zhao Ziyang on Tiananmen Square on May 19th 1989 was the curtain call marking the end of a power struggle that had been raging for weeks around the squalid encampment of student protesters in central Beijing. Zhao was then still general secretary of the Chinese Communist Party, but he had lost the battle with his hardline rivals. He died under house arrest four years ago, largely forgotten by the many inside and outside China who were mesmerised by the country's economic boom and wanted to forget the bloody culmination of the Tiananmen unrest.

Now Zhao's insights into this struggle (secretly recorded on cassette tapes and smuggled out to friends) have been translated into English and compiled into a book. Until the appearance of this posthumous work, not a single voice of dissent had ever emerged from the party's inner circle, even from someone like Zhao who had been booted out from it. Since the crushing of the protests, notwithstanding China's rapid integration with the global economy, the interaction of its leaders has been veiled in even greater secrecy than it was 20 years ago.

But even Zhao pulls his punches. He complains bitterly about his conservative rivals, some of whom are still alive but no longer politically active (as far as anyone knows). Yet he avoids dishing dirt on them personally. His invective is couched in the rhetoric of a loyal party man who feels uncomfortable about breaking the code of silence. Zhao says it was Deng Xiaoping who gave the order for the army to crush the Tiananmen Square protests. But he does not accuse him of wanting or even expecting the bloodshed that ensued on June 3rd and 4th 1989.

The personalities of the protagonists and the outline of their struggles in 1989 have long been widely known, or at least guessed at, by China-watchers. The then prime minister Li Peng (now 80 years old and retired) is portrayed by Zhao as a particularly unpleasant and petty rival. Many days before Zhao was officially deposed, Mr Li, the reader is told, broke protocol by rushing out in front of Zhao when emerging from a van to meet students. The prime minister reportedly instructed that official cameramen avoid recording images of Zhao, just in case of future leadership changes.

However, even if the book contains few startling revelations, it is fascinating for the way it conveys the flow of power in China at that time. Zhao may have been the party's leading official, but it was Deng who ruled China from semi-retirement in his Beijing courtyard home. Leaders vie for Deng's attention, struggling to glean the wishes of the 84-year-old (transmitted sometimes by a daughter or his secretary). At one point Deng's deafness makes it difficult for Zhao to be sure that he has got his message across. Zhao also has to defer to other veteran revolutionaries, some of them deeply conservative. Visiting their courtyards to mollify them becomes a vital routine.

As Zhao describes it, Deng was more of an enabler than a man concerned with detail. Zhao himself is presented as the real architect of China's economic reforms in the 1980s, with Deng helping to keep the conservatives at bay. Zhao, however, was always cautious, both in pushing for economic change and even more so in the political realm. He muses on the virtues of multiparty democracy, but the book also makes it clear that when in office he entertained no such thoughts. He wanted the party to be more open and accountable, but he had some misgiving about the "liberal and carefree" views of Hu Yaobang, Zhao's liberal predecessor who was ousted as party chief.

Deng ignored Zhao and ordered the army to clean out the Tiananmen Square protesters without a leadership vote. He also put his party chief under house arrest with no regard for the party's own rules. Yet, for years afterwards, Zhao still worried that Deng regarded him as disloyal. "I am truly unwilling to

see him leave this world with this misconception," Zhao records. Deng died in 1997, not having deigned to meet his faithful sidekick again.

Prisoner of the State: The Secret Journal of Premier Zhao Ziyang.
Translated and edited by Bao Pu, Renee Chiang and Adi Ignatius.
Simon & Schuster; 336 pages; $26

Iran and the bomb

How late it is, how late

May 21st 2009
From The Economist print edition

IRAN must be stopped in its tracks now. This stark message from two new books on Iran's nuclear threat is bound to raise cheers in Israel and among Washington's more hawkish Middle East watchers just as Binyamin Netanyahu paid his first visit to President Barack Obama since the two men took office.

Both authors, Amir Taheri and Emanuele Ottolenghi, believe Iran is working to overturn the existing regional order, though each approaches the subject from different vantage points. Mr Taheri explores in detail the historical, cultural, social and political roots of the Islamic Republic and the threat that he claims it poses to the West, whereas Mr Ottolenghi is little concerned with the history and internal dynamics of the country. Iranian-born Mr Taheri, a former executive editor-in-chief of *Kayhan*, Iran's largest newspaper, and a frequent contributor to newspapers in Europe and America, is, perhaps not surprisingly, implacably opposed to the Khomeinist regime; Mr Ottolenghi is more immediately concerned with the prospect of an Iranian bomb and calls for a robust sanctions package against the country as the best hope for bringing about change.

Reuters

Head in the mushroom clouds

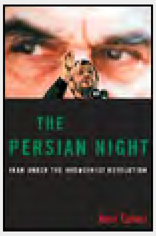
Mr Taheri views the Islamic Republic as an aberration. He argues that the leader of the 1979 revolution, Ayatollah Ruhollah Khomeini, saw Iran as a part of the broader Islamic nation and had little regard for Iranian history or civilisation. He describes its government as a "fascistic regime" controlling all aspects of daily life. Nevertheless, it would be a mistake to dismiss Mr Taheri's book as merely a diatribe against the Shia mullahs. The author believes Ayatollah Ali Khamenei, Iran's supreme leader, to be a relatively cultured and pragmatic man, and he takes care to mention his unsuccessful attempt to cancel the *fatwa* against Salman Rushdie.

Mr Taheri is adept at puncturing received wisdoms. He points out, for example, that it was Akbar Hashemi Rafsanjani and Muhammad Khatami, both supposed moderates, who supported terrorist attacks against Israel and did much to advance Iran's nuclear programme. He raises important questions over how to accommodate a regime that openly expresses its wish to see the end of Israel and remove all Western influence from the region.

Yet Mr Taheri has faults too. He overlooks the shah's shortcomings. More significantly, he tends to view American actions through rose-tinted spectacles. He underplays the role of the CIA in the 1953 coup against the prime minister, Muhammad Mossadegh. And he views Iran's co-operation with America in the 2001 overthrow of the Taliban in Afghanistan more as an act of Iranian opportunism than an opening gambit to better ties between the two countries. Furthermore, the author sheds little light on how the American-led invasion of Iraq in 2003 affected Iranian thinking. These weaknesses undermine the credibility of Mr Taheri's case.

Mr Ottolenghi's book, "Under a Mushroom Cloud", has a different flaw. The author, an academic who taught Israel studies at Oxford University before heading the Transatlantic Institute in Brussels, approaches the subject as an outsider. When he does discuss the internal situation in Iran, focusing on

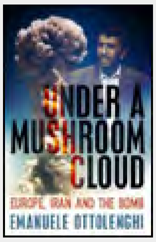
The Persian Night: Iran Under the Khomeinist Revolution
By Amir Taheri



Encounter Books; 413 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

Under a Mushroom Cloud: Europe, Iran and the Bomb
By Emanuele Ottolenghi



Profile Books; 278 pages; £9.99. To be published in America by Profile in September

Buy it at
Amazon.com
Amazon.co.uk

its poor human-rights record, this is largely with a view to bolstering his case for action against Tehran. Mr Ottolenghi is more of an expert on Israel than on Iran and the arguments he deploys appear to reflect Israeli concerns rather than insider knowledge of the Islamic Republic's decision-making process or the intentions of its leadership. Occasionally, the book reads more like an instruction manual for stopping Iran.

Nevertheless, Mr Ottolenghi is persuasive in his claim that Iran is very close to acquiring a nuclear bomb, which would allow it to act with impunity against moderate governments in the Middle East and step up the arms race in the region. Some may bridle at the apocalyptic scenarios he raises but these often serve a legitimate purpose. He points out, for example, that the Soviets and Americans maintained a nuclear hotline at the height of the cold war to avoid misunderstandings. There is no prospect of such an arrangement between Israel and the Iranians.

Although the author has not broken any new ground, he presents a convincing and well-crafted argument for robust, concerted and carefully targeted sanctions to deal with Iran's nuclear expansionism. Europe is well placed to tackle this issue since Iran's dependence on European technology and trade can help Europe exert pressure and bring about an Iranian climbdown without resorting to military force. If Europe wishes to avoid military action, Mr Ottolenghi argues, it must forgo short-term economic gains in return for longer-term regional stability.

Both authors may be sketching out a frightening scenario, yet they inject much-needed urgency, colour and clarity into the debate on Iran.

The Persian Night: Iran Under the Khomeinist Revolution.
By Amir Taheri.
Encounter Books; 413 pages; $25.95

Under a Mushroom Cloud: Europe, Iran and the Bomb.
By Emanuele Ottolenghi.
Profile Books; 278 pages; £9.99. To be published in America by Profile in September

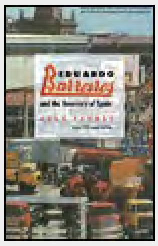
Business under Franco

The world of Eduardo Barreiros

May 21st 2009
From The Economist print edition

HUGH THOMAS made his name as an historian with an even-handed study of the Spanish civil war published almost half a century ago. He went on to write definitive histories of Cuba and of the Spanish conquest of Mexico. In his latest book he returns to Spain, but views it from an unusual angle.

Eduardo Barreiros and the Recovery of Spain
By Hugh Thomas



Yale University Press; 448 pages; $45 and £30

Buy it at
Amazon.com
Amazon.co.uk

Fundacion Eduardo Barreiros

The whole world in his hands, for a while

Eduardo Barreiros was a self-made man who rose to become Spain's most important businessman during the middle years of the long dictatorship of Francisco Franco. His name means little outside the Spanish-speaking world but his story is a remarkable one. He was born into rural poverty in Galicia, in Spain's then-remote north-west. His father made the crucial transition to urban life, becoming a small-scale bus operator in the town of Orense. Eduardo left school at 12. But he was an intuitive engineering genius with a precocious business sense. After fighting on Franco's nationalist side during the civil war, he set up a workshop in Orense, converting the petrol engines of Soviet lorries that had been sent to Spain to aid the doomed republic to run on more economical diesel. He quickly branched out into road-mending and civil engineering.

In 1952, still only in his early 30s, he made "the most important decision of his life", and moved to Madrid. There he set up what would become one of the biggest factories in Spain, turning out not just diesel engines but lorries, buses and tractors under joint ventures with British and German companies. He wanted to make cars, but lacked the technology and financial muscle. In 1963 he sold a 40% stake in his business to Chrysler; six years later, unable to raise his share of the necessary capital increases, he was obliged to sell the rest. Lord Thomas's account of the clash between hard-working, austere Spaniards and the arrogant, culturally autistic American organisation-men from Detroit makes for ironic reading at a time when Chrysler has gone into administration.

There was worse to come for Barreiros. In 1980 his investment company collapsed, apparently because of mistakes made by his advisers. He lost most of his fortune. Emotionally wounded, he moved to Cuba, setting up a plant making diesel engines for Fidel Castro's communist government. He died of a heart attack in Havana in 1992.

Barreiros was one of a small number of businessmen who prospered when Franco abandoned fascist autarky and embraced capitalism. He placed members of Franco's entourage on his board and joined partridge shoots with the dictator. But Lord Thomas argues that Franco's instinctively statist bureaucrats continued to thwart Barreiros whenever they could. He thus implicitly challenges the leftist notion that similar military dictatorships in Latin America were inherently "neoliberal". Barreiros, who defined himself as apolitical, saw no contradiction in working with Castro as well as Franco.

The author had close access to the Barreiros family. He portrays his subject as a benevolent paternalist, though such men are often tyrants too. Serious studies of businessmen in the Spanish-speaking world are rare. Lord Thomas has written an important, readable and thought-provoking book.

Eduardo Barreiros and the Recovery of Spain.

By Hugh Thomas.
Yale University Press; 448 pages; $45 and £30

Ronald Harwood

Plays on war

May 21st 2009
From The Economist print edition

A British playwright enjoys late fame

RONALD HARWOOD has been a late developer. After the initial success in 1980 of his autobiographical play, “The Dresser”, his work was regularly savaged by London critics. He was hurt, but he stubbornly refused to retire. Then in 2003 his script for “The Pianist” won an Oscar. “People notice when you win something, and I’ve had a lovely time since I was 68.” He is now 74 and points out that Henrik Ibsen was still writing hard in his 80s.

Mr Harwood, a Jew from Cape Town, grew up haunted by images of Auschwitz. He appreciated that the Nazi period dramatised the necessity of choice, and he became preoccupied with the great German artists, such as Wilhelm Furtwängler, a conductor, and a composer, Richard Strauss, who chose not to leave their native land. His protagonists always say they had no choice between staying put and giving comfort to the Nazis or showing their contempt by emigrating. Mr Harwood’s private view is that this is not so: “You always have a choice,” he says.

This does not mean that he thinks that Strauss and Furtwängler were wrong to stay. In his 1995 play, “Taking Sides”, which dealt with the case of Furtwängler, the conductor’s post-war interrogation by an American officer is so harsh that he breaks down. Evidence that he helped Jewish musicians escape from Germany is dismissed in the play as irrelevant. Furtwängler cries out: “I love my country. I believe in art. What could I do?”

Mr Harwood discovered he could not let the subject go. He decided to write a play about Strauss and nervously inquired of his guru, Harold Pinter, whether it was all right to describe the play as a “companion piece”. Mr Pinter’s gruff response was that of course it was. When “Collaboration” was submitted to the Chichester Festival Theatre, its director asked Mr Harwood whether the two plays might not be done together. “It would have seemed arrogant beyond belief to have suggested it myself, but it was wonderful for me,” he says. The two pieces open at the Duchess Theatre in London on May 27th.

In the new play there are layers of collaboration. Strauss works proudly with Stefan Zweig, a Viennese Jew and popular author, on his opera, “The Silent Woman”. He insists that Zweig’s name appear on the theatre bills when the Nazis have censored it. But he also feels impelled to collaborate in writing the kitsch music demanded by the regime out of fear for his half-Jewish grandchildren. Zweig, for whom exile from Europe was intolerable, committed suicide in Brazil in 1942. That too, Mr Harwood can interpret as a kind of collaboration. He recalls the commandment of an old Rabbi for Jews contemplating suicide in the Nazi period: “Thou shalt not give Hitler a posthumous victory.”

“Collaboration” was written with the express intention of making the audience feel uncomfortable, as was “Taking Sides”. Mr Harwood stubbornly refuses to use his authorial voice to issue a judgment on any of his characters. “I want the audience to make up their own minds.” Does he have a view? “Yes”, he says, “and I’ve never told anyone. But it changes too.” He quotes Voltaire: “Doubt is not a pleasant position, but certainty is absurd.”

Lynn Nottage

Dramatises the Congo conflict

May 21st 2009
From The Economist print edition

Plaudits for Lynn Nottage's war drama

POLITICALLY charged plays are not common in America. "Ruined", Lynn Nottage's drama set in Congo, is a rare, and remarkable, exception. Since opening off-Broadway in February, this show about damaged women in a rural brothel has earned lavish praise, packed houses, several extensions (the latest until June 28th at the Manhattan Theatre Club) and, most recently, the 2009 Pulitzer prize for drama.

"'Ruined' is a universal story," says Ms Nottage, a 44-year-old, New York-based playwright. "It speaks to many people's experiences. This play could be transposed to the war in the Balkans and it would have resonance."

Manhattan Theatre Club

Mother courage

Having spent most of her career writing successful off-Broadway plays about the African-American experience (for which she earned a MacArthur grant in 2007), Ms Nottage decided to cast her gaze farther afield, largely out of frustration. She could not understand why Congo's bloodshed aroused so little horror, despite being one of the most deadly conflicts since the second world war. "I became particularly aware of the absence of female narratives," she explains. "So I literally had to get on a plane and find them myself." In visits to Uganda in 2003 and 2004, she collected stories of wartime choices and sexual brutality that would inform "Ruined". Earlier this month Ms Nottage was on Capitol Hill in Washington, DC, to present a monologue from the play following Senate hearings on rape and violence against women in conflict zones.

When Ms Nottage first conceived of this play, she thought it would be a more critical work about war, like Bertolt Brecht's "Mother Courage and Her Children". But after hearing the accounts of the women she interviewed, she was moved to write something more personal. The result, directed and co-developed by Kate Whoriskey, is ambitious yet intimate, full of engaging characters who make terrible decisions in order to survive in a place where "things slip from our fingers like butter." Everyone is bruised, some are "ruined" (the term used to describe violent genetic mutilation), but each grasps at the pleasures that are still there within a song or a dance.

At the play's centre is Mama Nadi (performed with charismatic bombast by Saidah Arrika Ekulona and from May 26th by Portia) who runs the whorehouse in a small Congo mining town. With opportunistic savvy, she serves beer and companionship to both government soldiers and rebel militias. If her shrewdness seems callous, she is trying to operate a business in a place where there is little room for heart. Pictured above with Quincy Tyler Bernstine, who plays Salima, a woman torn from her family and then rejected by them, Mama Nadi asks: "What is their argument? I don't know. Who will win? Who cares?"

Prabhakaran

May 21st 2009
From The Economist print edition

Velupillai Prabhakaran, commander of the Tamil Tigers, died on May 18th, aged 54

Getty Images

THE body of the young man lay on a scarlet bier. He was in his colonel's uniform and beret, with white gloves that made his hands seem enormous beside his emaciated body. His face was set in a rictus of death that was somewhat like a smile. But the portly, mustachioed man who stood looking at him, in a short-sleeved white shirt and blue trousers, hands clasped awkwardly in front of him, was not smiling.

Velupillai Prabhakaran always said this was the moment, four years into the war in September 1987, when he gave up any faith in non-violence. The young man before him, Thileepan, had fasted to death to highlight the plight of Sri Lanka's Tamil minority and their demands for independence. The Sinhalese majority had paid no attention. So Prabhakaran pledged himself and his Liberation Tigers of Tamil Eelam to a path of unremitting carnage.

The world had to notice when, in 1996, a truckload of explosives was driven through the gates of the Central Bank in Colombo, killing 90 and injuring more than 1,000. And it had to wake up to Tamil demands when, in 1991 (though Prabhakaran always ducked away from blame for it), India's former prime minister, Rajiv Gandhi, was blown up by a female bomber who had bent to touch his feet. By the time Prabhakaran was felled by a bullet in his last redoubt, his war had claimed the lives of more than 100,000 Sri Lankans.

And in fact his commitment to violence had been there from the beginning. On his first operation, bunking off school at 17 with his mates, he threw a bomb into a group of soldiers. His first "political" act, in 1975, was to shoot the mayor of Jaffna at point-blank range for betraying the Tamil cause, as he believed. After the founding of the LTTE, in 1976, leaders of rival groups and Tamils too moderate to agree with him were sought out and killed; he signed their death warrants. In person he was stocky, soft-spoken and with a pleasant smile, like a middle-order restaurant manager. But his wife, who first caught his eye by throwing a bucket of coloured water over him at the *holi* festival, burst into terrified tears when she had done it. And the girls he "cared for" at his special school in Vanni, his embryonic Tamil homeland in the north-east of the island, were trained to strap explosive belts underneath their dresses, a branch of warfare he had more or less invented.

He was a shy, coddled child, the son of a land officer. His parents, both pious Hindus, were followers of Mahatma Gandhi and his doctrine of *ahimsa*, or non-violence. But the books young Prabhakaran read,

out on the veranda under the banana tree, were biographies of Alexander the Great and Napoleon. He treasured the Bhagavad Gita not for its spiritual riches but for the passage where Krishna told Arjuna that it was his duty to fight and kill even his relations. His great hero, “a beacon to me”, was not Gandhi but Subhas Chandra Bose, who had tried to drive the British out of India with armed force.

In night classes at the Aladi School he reinforced his outrage that Tamils were passed over for civil-service jobs and university places, and were sometimes beaten up in the streets. He practised martial arts, saved money for a revolver, and in 1972 slipped away into the jungle, where he lived for much of the rest of his life.

Curry and Clint Eastwood

As a leader of terrorists he built up an impressive reputation. He waged war for 26 years. At one time, as much as a third of Sri Lanka was under his control. Prabhakaran divided his thousands of Tiger recruits into an army, a navy (with some light boats) and an air force (with flimsy aircraft), and raised money for weapons by extortion, robbery and arm-twisting of the Tamil diaspora. He refused to compromise the cause or make encumbering alliances. When India began to sponsor Tamil groups, he kept clear of them, and when Indian peacekeepers came to Sri Lanka in the 1980s he ended by fighting them.

No philosophy or ideology guided him, as far as anyone could tell. He did not like abstractions. Nor could he tolerate debate. Despite a peace agreement in 2002 a separate Tamil homeland, with its enemies eliminated, was all he would accept. In Vanni he more or less constructed one, neat and organised as he always was, with thatched huts and coconut groves along dirt roads. There was no power, but the place had its own banks and law courts. The Sinhalese army fenced it in with barbed wire and bombed it. Among the craters were the remains of lush gardens, and lagoons filled with lilies, that might have made the sort of Tamil paradise Prabhakaran carried in his head.

Both the Sri Lankan and Indian governments had arrest warrants out for him. He stayed mostly underground where, like some large grub, he was oiled twice a day by his bodyguards and fed on curry and Clint Eastwood movies, in which cops and cowboys shot themselves out of trouble. He had an escape plan, or several. His cadres would kill him, and burn the body; he would squeeze himself into a submarine; he would bite on the cyanide capsule that hung on a black string round his neck.

His people, confined in the end to a beach in north-eastern Sri Lanka and shelled by the Sinhalese army, could not get away so easily from the mayhem Prabhakaran had drawn them into.

Overview

May 21st 2009
From The Economist print edition

Japan's GDP fell at an annualised rate of 15.2% in the first quarter. The depressing effect on demand of another big decline in exports was compounded by a collapse in business investment.

GDP in the **euro area** fell by 2.5% in the three months to March, leaving it 4.6% lower than a year earlier. Germany's economy shrank by almost 7% from its peak in the first quarter of last year. Italy's GDP fell by 5.9% from a year earlier; Spain's fell by 3%, while in France, GDP was 3.2% lower. Consumer prices in the euro zone rose by 0.6% in the year to April, unrevised from a provisional estimate. The core rate of inflation, which excludes food, energy, alcohol and tobacco prices, picked up from 1.4% to 1.8%.

The number of new housing starts in **America** plunged by 12.8% in April to their lowest level since records began in 1959. Despite that drop, sentiment in the sector is improving. The confidence index compiled by the National Association of Home Builders picked up in May.

Consumer prices in **Canada** fell by 0.1% in April, leaving the annual inflation rate at 0.4%, down from 1.2% in March.

Inflation in **Britain** fell to 2.3% in April from 2.9% in March. The main downward pressure on inflation came from smaller energy bills and falling food prices.

Malaysia's inflation rate declined to 3% in April, from 3.5% in March.

Output, prices and jobs

May 21st 2009
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2009†	2010†	latest	latest	year ago	2009†	rate‡, %
United States	−2.6 Q1	−6.1	−2.9	+1.4	−12.5 Apr	−0.7 Apr	+3.9	−0.8	8.9 Apr
Japan	−9.7 Q1	−15.2	−6.4	+0.6	−34.2 Mar	−0.3 Mar	+1.2	−1.1	4.8 Mar
China	+6.1 Q1	na	+6.5	+7.3	+7.3 Apr	−1.5 Apr	+8.5	−0.5	9.0 2008
Britain	−4.1 Q1	−7.4	−3.7	+0.3	−12.4 Mar	+2.3 Apr§	+3.0	+1.5	7.1 Mar††
Canada	−0.7 Q4	−3.4	−2.3	+1.6	−7.6 Feb	+0.4 Apr	+1.7	+0.5	8.0 Apr
Euro area	−4.6 Q1	−9.8	−3.7	+0.3	−20.2 Mar	+0.6 Apr	+3.3	+0.4	8.9 Mar
Austria	+0.5 Q4	−0.8	−2.1	+0.2	−14.2 Feb	+0.7 Apr	+3.3	+0.6	4.5 Mar
Belgium	−3.0 Q1	−6.2	−3.0	+0.2	−18.6 Feb	+0.6 Apr	+4.2	+0.6	11.2 Feb‡‡
France	−3.2 Q1	−4.7	−2.9	+0.3	−15.8 Mar	+0.1 Apr	+3.0	+0.2	8.8 Mar
Germany	−6.9 Q1	−14.4	−5.2	+0.3	−20.3 Mar	+0.7 Apr	+2.4	+0.2	8.3 Apr
Greece	+0.3 Q1	−4.6	−3.6	−1.1	−5.3 Mar	+1.0 Apr	+4.4	+0.9	9.1 Feb
Italy	−5.9 Q1	−9.4	−4.0	+0.1	−23.8 Mar	+1.2 Apr	+3.3	+0.7	6.9 Q4
Netherlands	−4.5 Q1	−10.7	−3.1	+0.5	−12.1 Mar	+1.8 Apr	+2.0	+0.9	4.4 Apr††
Spain	−3.0 Q1	−7.4	−3.3	−0.5	−14.0 Mar	−0.2 Apr	+4.2	−0.1	17.4 Mar
Czech Republic	+0.7 Q4	−3.7	−3.0	+1.2	−17.0 Mar	+1.8 Apr	+6.8	+1.9	7.9 Apr
Denmark	−3.7 Q4	−7.3	−3.1	+0.6	−15.0 Mar†††	+1.4 Apr	+3.2	+1.2	2.9 Mar
Hungary	−6.4 Q1	−8.9	−6.0	−1.0	−19.6 Mar	+3.4 Apr	+6.6	+2.8	9.7 Mar††
Norway	+1.5 Q1	−1.8	−2.0	+0.5	−1.6 Mar	+2.9 Apr	+3.1	+1.9	3.1 Feb***
Poland	+2.9 Q4	na	−0.8	+1.5	−12.4 Apr	+3.6 Mar	+4.1	+3.0	11.2 Mar‡‡
Russia	−9.5 Q1	na	−3.0	+2.0	−16.9 Apr	+13.2 Apr	+14.3	+13.8	10.0 Mar‡‡
Sweden	−4.9 Q4	−9.3	−4.1	+0.8	−22.9 Mar	+0.1 Apr	+3.4	−0.2	8.3 Mar‡‡
Switzerland	−0.1 Q4	−1.2	−2.4	+0.2	−6.0 Q4	−0.3 Apr	+2.3	−0.5	3.4 Apr
Turkey	−6.2 Q4	na	−4.5	+1.0	−20.9 Mar	+6.1 Apr	+9.7	+6.8	16.1 Q1‡‡
Australia	+0.3 Q4	−2.1	−0.7	+1.6	−0.7 Q4	+2.5 Q1	+4.2	+2.0	5.4 Apr
Hong Kong	−7.8 Q1	−16.1	−5.8	+0.6	−10.3 Q4	+0.6 Apr	+5.4	+1.1	5.3 Apr††
India	+5.3 Q4	na	+5.0	+6.4	−2.3 Mar	+8.0 Mar	+7.9	+5.0	6.8 2008
Indonesia	+4.4 Q1	na	−1.4	+0.5	+1.6 Mar	+7.3 Apr	+6.8	+4.2	8.4 Aug
Malaysia	+0.1 Q4	na	−3.0	+1.2	−14.3 Mar	+3.0 Apr	+3.0	−0.5	3.0 Q4
Pakistan	+5.8 2008**	na	+0.6	+3.2	−7.9 Feb	+17.2 Apr	+17.2	+9.9	5.6 2007
Singapore	−10.1 Q1	−14.6	−8.8	+0.9	−33.9 Mar	+1.6 Mar	+6.7	+0.1	3.2 Q1
South Korea	−4.3 Q1	+0.2	−5.9	+0.3	−10.6 Mar	+3.6 Apr	+4.1	+0.1	3.7 Apr
Taiwan	−10.0 Q1	na	−6.5	+0.4	−26.0 Mar	−0.5 Apr	+3.9	−1.3	5.7 Mar
Thailand	−4.3 Q4	−22.2	−4.4	+1.1	−15.4 Mar	−0.9 Apr	+6.2	−1.1	1.9 Mar
Argentina	+4.9 Q4	−1.2	−3.5	+0.5	−0.9 Mar	+5.7 Apr	+8.9	+7.2	7.3 Q4‡‡
Brazil	+1.3 Q4	−13.6	−1.5	+2.7	−10.0 Mar	+5.5 Apr	+5.0	+4.4	9.0 Mar‡‡
Chile	−2.1 Q1	−2.4	−0.8	+2.0	−7.1 Mar	+4.5 Apr	+8.3	+3.1	9.2 Mar††‡‡
Colombia	−0.7 Q4	−4.1	−3.0	+1.5	+0.4 Mar	+5.7 Apr	+5.7	+5.4	12.0 Mar‡‡
Mexico	−8.2 Q1	−21.5	−4.4	+1.2	−6.7 Mar	+6.2 Apr	+4.6	+5.1	4.8 Mar‡‡
Venezuela	+0.3 Q1	na	−5.0	−5.4	−0.9 Jan	+29.4 Apr	+29.3	+30.3	8.1 Q1‡‡
Egypt	+4.3 Q1	na	+3.6	+3.7	+5.7 Q4	+11.7 Apr	+16.4	+9.1	9.4 Q1‡‡
Israel	+1.2 Q4	−0.5	−0.8	+2.0	−7.7 Mar	+3.1 Apr	+4.7	+0.7	6.3 Q4
Saudi Arabia	+4.2 2008	na	−1.0	+3.3	na	+5.2 Apr	+9.2	+4.3	na
South Africa	+1.0 Q4	−1.8	−1.8	+3.1	+8.5 Mar	+8.5 Mar	+10.6	+6.0	23.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	−15.6 Q1	nil	−10.0	−2.5	−29.7 Mar	+0.3 Apr	+11.4	+0.5	11.1 Mar
Finland	−2.4 Q4	−5.0	−5.7	−1.1	−16.5 Mar	+0.8 Apr	+3.6	+0.3	7.6 Mar
Iceland	−1.3 Q4	−3.6	−12.4	−0.9	+0.4 2007	+11.9 Apr	+11.8	+12.5	9.1 Apr‡‡
Ireland	−7.5 Q4	−25.7	−7.4	−2.5	−1.7 Feb	−3.5 Apr	+4.3	−3.5	11.4 Apr
Latvia	−18.0 Q1	na	−15.0	−4.0	−23.4 Mar	+6.4 Apr	+17.4	+2.5	16.1 Mar
Lithuania	−12.6 Q1	−32.9	−10.0	−2.5	na	+6.3 Apr	+11.7	+4.5	9.5 Mar‡‡
Luxembourg	−5.2 Q4	−16.8	−4.0	−0.5	−36.1 Feb	+0.3 Mar	+3.5	+0.5	5.5 Mar‡‡
New Zealand	−2.3 Q4	−2.3	−2.9	+0.5	−7.2 Q4	+3.0 Q1	+3.4	+1.4	5.0 Q1
Peru	+0.2 Feb	na	+2.8	+3.9	−7.4 Feb	+4.6 Apr	+5.5	+4.7	9.3 Mar‡‡
Philippines	+4.5 Q4	+4.1	−1.9	+1.3	−21.1 Feb	+4.8 Apr	+8.3	+2.7	7.7 Q1‡‡
Portugal	−3.7 Q1	−8.5	−4.2	−0.5	−7.6 Mar	−0.5 Apr	+2.5	−1.0	8.9 Q1‡‡
Slovakia	−5.4 Q1	na	−2.0	+1.0	−18.0 Mar	+2.3 Apr	+4.2	+2.0	10.9 Apr‡‡
Slovenia	−0.8 Q4	na	−3.0	+1.1	−18.5 Mar	+1.1 Apr	+6.5	+1.1	8.4 Mar‡‡
Ukraine	+6.9 Q3	na	−6.0	+2.0	−31.8 Apr	+15.6 Apr	+30.2	+16.6	2.9 Apr
Vietnam	+5.5 Q4	na	+1.6	+2.0	+5.4 Apr	+9.2 Apr	+21.4	+4.8	4.6 2007

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate -1.2 in Apr. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***Centred 3-month average †††New series

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

May 21st 2009
From The Economist print edition

The Economist commodity-price index

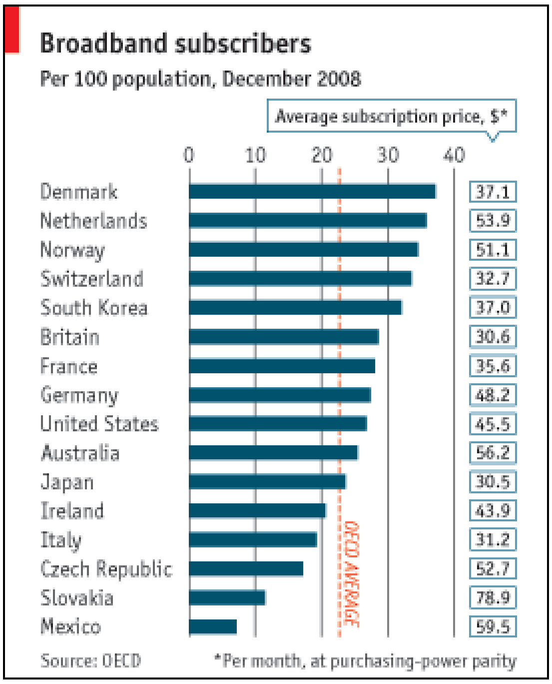
2000=100

	May 12th	May 19th*	% change on one month	% change on one year
Dollar index				
All items	181.7	181.8	+8.9	-28.9
Food	206.5	208.1	+9.8	-18.2
Industrials				
All	149.5	147.9	+7.3	-42.6
Nfa†	129.9	129.0	+8.8	-35.5
Metals	160.3	158.2	+6.7	-45.3
Sterling index				
All items	180.4	177.8	+2.7	-9.8
Euro index				
All items	123.1	123.5	+3.6	-18.4
Gold				
$ per oz	920.00	926.20	+5.0	+1.0
West Texas Intermediate				
$ per barrel	58.82	59.52	+26.8	-53.8

*Provisional †Non-food agriculturals.

Broadband subscribers

May 21st 2009
From The Economist print edition



The number of broadband subscribers in OECD countries increased by 13% last year to 267m. More than a fifth of the combined population of the 30 mostly rich nations in the OECD now have high-speed access to the internet. The broadband penetration rate is above a third in Denmark, the Netherlands, Norway and Switzerland. Adoption is lowest in Mexico, where just over 7% are broadband subscribers. Slovakia enjoyed the fastest growth in broadband subscriptions per person last year. It also had the highest subscription rates, once exchange rates were adjusted for local spending power. On that basis, Slovaks paid more than twice as much for speedy internet access as broadband users in Britain and Japan.

Trade, exchange rates, budget balances and interest rates

May 21st 2009
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2009†	Currency units, per $ May 20th	Currency units, per $ year ago	Budget balance % of GDP 2009†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−730.4 Mar	−673.3 Q4	−3.3	–	–	−13.2	0.23	3.21
Japan	+10.0 Mar	+118.2 Mar	+1.6	95.3	103	−6.3	0.48	1.42
China	+300.5 Apr	+400.7 Q2	+6.9	6.83	6.96	−3.5	1.21	3.25
Britain	−156.7 Mar	−44.6 Q4	−1.7	0.64	0.51	−12.3	1.30	3.57
Canada	+32.7 Mar	+11.3 Q4	−2.0	1.14	0.98	−2.5	0.17	3.29
Euro area	−56.8 Mar	−150.9 Feb	−1.0	0.73	0.63	−5.7	1.24	3.43
Austria	−3.9 Feb	+15.0 Q4	+1.7	0.73	0.63	−4.6	1.24	4.06
Belgium	+5.0 Feb	−12.1 Dec	−1.8	0.73	0.63	−4.7	1.26	4.04
France	−79.1 Mar	−53.6 Mar	−2.3	0.73	0.63	−6.6	1.24	3.80
Germany	+223.3 Mar	+193.7 Mar	+4.4	0.73	0.63	−4.4	1.24	3.43
Greece	−61.1 Feb	−48.7 Feb	−12.8	0.73	0.63	−5.0	1.24	5.11
Italy	−14.9 Mar	−72.9 Feb	−2.6	0.73	0.63	−5.3	1.24	4.29
Netherlands	+47.6 Mar	+65.3 Q4	+5.9	0.73	0.63	−3.1	1.24	3.86
Spain	−127.3 Feb	−144.9 Feb	−6.9	0.73	0.63	−9.6	1.24	4.10
Czech Republic	+4.0 Mar	−7.2 Mar	−2.1	19.3	16.0	−4.0	2.25	5.30
Denmark	+6.0 Feb	+8.0 Mar	+1.0	5.40	4.73	−2.5	2.59	3.83
Hungary	+0.1 Mar	−13.0 Q4	−3.0	200	155	−2.9	9.66	10.45
Norway	+70.5 Mar	+83.4 Q4	+10.5	6.38	5.00	10.5	2.33	4.15
Poland	−20.2 Mar	−22.0 Mar	−5.2	3.15	2.16	−3.8	4.56	6.31
Russia	+151.6 Mar	+75.4 Q1	−1.1	31.5	23.6	−8.0	12.00	10.85
Sweden	+13.7 Mar	+40.3 Q4	+7.1	7.54	5.91	−4.7	0.40	3.59
Switzerland	+16.9 Mar	+53.3 Q4	+7.5	1.10	1.03	−2.0	0.40	2.29
Turkey	−58.1 Mar	−30.5 Mar	−1.3	1.52	1.24	−5.3	10.09	6.39‡
Australia	+5.2 Mar	−44.1 Q4	−5.0	1.28	1.04	−3.3	3.14	5.07
Hong Kong	−23.8 Mar	+30.5 Q4	+7.8	7.75	7.80	−4.3	0.41	2.12
India	−109.0 Mar	−37.5 Q4	−3.0	47.5	42.8	−7.7	3.27	7.27
Indonesia	+7.3 Mar	−0.8 Q1	−0.3	10,345	9,292	−2.9	8.31	7.91‡
Malaysia	+43.5 Mar	+39.1 Q4	+11.5	3.54	3.22	−8.2	2.09	2.80‡
Pakistan	−17.8 Apr	−15.3 Q4	−1.3	80.9	69.4	−6.4	13.81	16.08‡
Singapore	+17.1 Apr	+27.1 Q4	+17.2	1.46	1.36	−4.1	0.50	2.05
South Korea	+3.3 Apr	+7.4 Mar	+1.9	1,251	1,042	−6.5	2.41	5.00
Taiwan	+11.2 Apr	+25.0 Q4	+9.7	32.8	30.5	−5.0	0.85	1.44
Thailand	+7.8 Mar	+5.9 Mar	+2.7	34.4	31.9	−4.7	1.40	2.79
Argentina	+14.4 Apr	+7.6 Q4	+2.1	3.73	3.13	−0.9	14.63	na
Brazil	+27.0 Apr	−23.0 Mar	−1.2	2.02	1.65	−2.0	10.16	6.16‡
Chile	+3.8 Apr	−3.4 Q4	−1.8	558	472	−3.3	1.68	3.36‡
Colombia	+2.1 Feb	−6.8 Q4	−4.0	2,196	1,780	−3.3	6.29	5.96‡
Mexico	−17.2 Mar	−2.4 Q4	−3.1	12.9	10.4	−5.3	5.18	7.53
Venezuela	+32.5 Q1	+26.2 Q1	+0.4	6.49	3.25§	−5.3	16.00	6.55‡
Egypt	−26.8 Q4	−1.3 Q4	−0.8	5.63	5.35	−6.9	10.43	3.83‡
Israel	−12.0 Mar	+1.6 Q4	+2.0	4.02	3.32	−5.9	0.44	4.00
Saudi Arabia	+197.4 2008	+124.0 2008	−8.4	3.75	3.75	−9.0	0.87	na
South Africa	−7.4 Mar	−21.0 Q4	−5.5	8.31	7.65	−4.0	7.85	8.52
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−3.2 Feb	−1.6 Mar	−3.0	11.4	9.92	−3.5	6.27	na
Finland	+8.0 Feb	+2.5 Mar	+0.6	0.73	0.63	−2.6	1.24	3.91
Iceland	+0.2 Apr	−5.6 Q4	+0.4	128	73.2	−10.5	7.63	na
Ireland	+45.0 Feb	−12.7 Q4	−2.6	0.73	0.63	−12.5	1.24	5.20
Latvia	−5.0 Mar	−3.0 Mar	−4.0	0.51	0.44	−6.0	11.64	na
Lithuania	−5.4 Mar	−3.6 Mar	−3.0	2.51	2.19	−3.5	6.71	na
Luxembourg	−7.8 Feb	+3.0 Q4	na	0.73	0.63	−4.5	1.24	na
New Zealand	−3.3 Mar	−11.3 Q4	−6.6	1.64	1.28	−6.2	4.05	5.52
Peru	+2.0 Mar	−4.2 Q4	−5.9	2.99	2.80	−1.8	4.00	na
Philippines	−7.8 Feb	+4.2 Dec	+2.3	47.3	43.2	−2.8	4.06	na
Portugal	−33.0 Feb	−27.7 Feb	−9.7	0.73	0.63	−4.9	1.24	4.21
Slovakia	−1.0 Mar	−7.1 Feb	−6.3	21.9	19.8	−4.5	1.35	4.68
Slovenia	−4.1 Mar	−2.5 Feb	−1.6	0.73	0.63	−3.8	1.24	na
Ukraine	−16.9 Q4	−10.1 Q1	−2.2	7.63	4.56	−4.0	14.70	na
Vietnam	−8.2 Mar	−7.0 2007	−1.8	17,783	16,184	−8.2	7.80	7.16

*Merchandise trade only. †The Economist poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Markets

May 21st 2009
From The Economist print edition

Markets

	Index May 20th	% change on one week	% change on Dec 31st 2008 in local currency	% change on Dec 31st 2008 in $ terms
United States (DJIA)	8,422.0	+1.7	-4.0	-4.0
United States (S&P 500)	903.5	+2.2	nil	nil
United States (NAScomp)	1,727.8	+3.8	+9.6	+9.6
Japan (Nikkei 225)	9,344.6	nil	+5.5	+0.3
Japan (Topix)	886.3	-0.3	+3.1	-1.9
China (SSEA)	2,783.0	-0.5	+45.6	+45.5
China (SSEB, $ terms)	175.5	+3.2	+58.3	+58.2
Britain (FTSE 100)	4,468.4	+3.2	+0.8	+9.7
Canada (S&P TSX)	10,232.4	+5.4	+13.8	+23.0
Euro area (FTSE Euro 100)	767.6	+5.5	+2.8	+2.0
Euro area (DJ STOXX 50)	2,487.2	+5.5	+1.6	+0.8
Austria (ATX)	2,106.9	+8.4	+20.3	+19.3
Belgium (Bel 20)	2,108.0	+4.5	+10.4	+9.5
France (CAC 40)	3,303.4	+4.8	+2.7	+1.8
Germany (DAX)*	5,038.9	+6.6	+4.8	+3.9
Greece (Athex Comp)	2,309.8	+8.1	+29.3	+28.2
Italy (S&P/MIB)	20,525.0	+5.9	+5.5	+4.6
Netherlands (AEX)	266.3	+6.4	+8.3	+7.4
Spain (Madrid SE)	971.7	+4.2	-0.4	-1.3
Czech Republic (PX)	947.3	+5.0	+10.4	+10.5
Denmark (OMXCB)	286.3	+7.2	+26.6	+25.5
Hungary (BUX)	15,803.1	+16.3	+29.1	+23.3
Norway (OSEAX)	340.5	+5.7	+26.0	+38.2
Poland (WIG)	30,306.1	+2.7	+11.3	+4.6
Russia (RTS, $ terms)	1,024.0	+8.1	+67.3	+62.1
Sweden (OMXS30)†	783.7	+4.8	+18.3	+24.1
Switzerland (SMI)	5,509.3	+4.4	-0.5	-3.5
Turkey (ISE)	35,139.7	+7.0	+30.8	+32.4
Australia (All Ord.)	3,808.9	-0.9	+4.1	+14.2
Hong Kong (Hang Seng)	17,475.8	+2.4	+21.5	+21.4
India (BSE)	14,060.7	+17.0	+45.7	+49.5
Indonesia (JSX)	1,885.7	+1.9	+39.1	+46.6
Malaysia (KLSE)	1,042.6	+1.9	+18.9	+16.3
Pakistan (KSE)	7,060.7	-2.5	+20.4	+17.7
Singapore (STI)	2,269.2	+3.8	+28.8	+27.5
South Korea (KOSPI)	1,435.7	+1.5	+27.7	+28.5
Taiwan (TWI)	6,703.6	+3.4	+46.0	+46.0
Thailand (SET)	561.4	+1.6	+24.8	+26.0
Argentina (MERV)	1,550.2	+6.1	+43.6	+33.0
Brazil (BVSP)	51,245.0	+5.3	+36.5	+57.6
Chile (IGPA)	14,400.9	+4.8	+27.2	+45.1
Colombia (IGBC)	9,255.0	+3.9	+22.4	+25.3
Mexico (IPC)	24,399.6	+5.4	+9.0	+17.4
Venezuela (IBC)	43,627.6	-0.9	+24.3	+33.9
Egypt (Case 30)	5,937.1	+1.2	+29.2	+26.5
Israel (TA-100)	794.7	+5.6	+40.9	+32.4
Saudi Arabia (Tadawul)	6,052.6	+0.1	+26.0	+26.1
South Africa (JSE AS)	22,674.2	+6.5	+5.4	+17.3
Europe (FTSEurofirst 300)	875.9	+5.3	+5.3	+4.4
World, dev'd (MSCI)	953.5	+3.7	+3.6	+3.6
Emerging markets (MSCI)	756.1	+6.5	+33.3	+33.3
World, all (MSCI)	242.3	+4.0	+6.4	+6.4
World bonds (Citigroup)	791.4	+0.8	-2.3	-2.3
EMBI+ (JPMorgan)	437.4	+1.6	+11.7	+11.7
Hedge funds (HFRX)§	1,066.6	+0.7	+4.5	+4.5
Volatility, US (VIX)	29.0	33.7	40.0	(levels)
CDSs, Eur (iTRAXX)‡	136.0	-12.6	-32.7	-33.3
CDSs, N Am (CDX)‡	191.5	-6.4	-18.0	-18.0
Carbon trading (EU ETS) €	15.3	+3.6	-5.4	-6.2

*Total return index. †New series. ‡Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. §May 19th

Global OTC derivatives

May 21st 2009
From The Economist print edition

The notional amount of over-the-counter (OTC) derivatives stood at $592 trillion at the end of December last year, down from $684 trillion six months earlier, according to the Bank for International Settlements (BIS). That was the first decline since the BIS started collecting such data in 1998. OTC derivatives are tailored bets on financial assets, supplied by specialist firms. They are distinct from standardised derivative contracts, traded at arm's length on exchanges. The notional worth is a gauge of the reference value against which contract payments are set. The size and risk of OTC derivative bets is best captured by their gross market value, says the BIS. That figure rose by 67% to $33.9 trillion between June and December.